# THE IMPACT OF ELECTRONIC BUSINESS ON THE DEVELOPMENT OF SMALL AND MEDIUM ENTERPRISES IN THE REPUBLIC OF KOSOVO

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## ABSTRACT

Use of electronic commerce (e-Commerce) in small and medium enterprises (SMEs) has become an important topic in information research systems. E-Commerce is a technological innovation that enables SMEs to compete in the same level with other major companies. According to statistics, SMEs are the main sources of innovation and are a step forward compared to large companies, because they are more flexible to market changes. The feature of nowadays is the digitization of business; therefore the use of the Internet and the use of technology has become a tool to gain competitive advantage in business. Competitiveness at the global level and exports in the future will largely depend on the deployment of new technologies in commercial matters. SMEs have grown significantly in the global economy over the past two decades due to the fact that their number represents about 90% of the total worldwide facilities. Even in Kosovo, SMEs represent the majority of production units of Kosovo economy; therefore the current directions of national policy should address the ways and means of developing capacities of SMEs. Like many other countries around the world in Kosovo SMEs play an important role in generating employment and ensuring the economic development, the rapid developments in information and communication technologies (ICT), especially the Internet, have brought many changes in the world, both in developed countries and developing countries. The purpose of this study is to determine how many SMEs in the Republic of Kosovo are familiar with e-commerce, the opportunities it offers for business, and how many of them use it as a basic strategic definition in their businesses. We will explain the advantages of e-commerce for SMEs as an innovative way to improve business performance. Given that e-commerce is the future of enterprises, managers of SME should focus their efforts on innovation processes, as part of the development strategy of the enterprises where they work.

**Keywords:** E-commerce, SMEs, ICT.

## INTRODUCTION

Many governments have an active policy of intervention to promote Internet adoption in SMEs, so knowing the importance of the internet and Kosovo government is paying attention the support of SMEs in terms of the necessary technical infrastructure. SMEs are generally willing to develop e-commerce systems or to change current business models. In this society of knowledge, firms must develop competitive advantages based on an adequate and intensive use of information and communication technologies (ICT), which is an essential element of success in today's market. This fact is especially important for small and medium enterprises (SMEs), whose survival depends, among other factors, in the use of ICT to

develop new organizational models, compete in new markets or to deepen their internal and external relations of the communication. Although there is a major impact on the design of strategies, most SMEs do not see the Internet as a key to their business strategy. Use of e-commerce in small and medium enterprises (SMEs) is important and there are positive signs that their benefits are by electronic commerce as a kind of ICT, for assistance in expanding their business.

Small and Medium Enterprises (SME) are the main promoter of economic growth of a country, and should be studied in terms of their adaptation to new technologies that make them faster and stronger, creating new channels, reducing time to market, offering the opportunity to work more flexible and creating new jobs. To be able to reach new customers who are away from their countries to compete with their rivals in the national and international arena, SMEs need to be adapted to information and communication technologies.

## DEFINITION OF SMEs

The SME sector plays an important role in the economic development of any country, in particular for Kosovo that is undergoing in the transition phase directed towards a market economy. There are many definitions of SMEs, thus the determination and definition of SMEs is not the same in all countries and therefore we conclude that there is no general definition defining SMEs. There is no definition or criteria for deciding the term enterprise respectively small and medium enterprises (SMEs / SMBs). The main factors that determine whether a company is SME are:

1. Number of employees and
2. Turnover

The definition of small and medium (SME), according to the EU is divided into three categories:

- Micro Enterprises / businesses, have 1-9employees
- Small Enterprises / businesses, have 10-49 employees
- Medium Enterprises / businesses, have50-249 employees

EU concept is a concept accepted by Kosovo institutions.Following in Table 1, will be presented the classification of SMEs according to World Bank standards and the European Union.

Table 1 - Classification of SMB under: World Bank and the European Union

| Nr. | Name | Nr of the workers (according to the World Bank) | Nr of The workers (according to the EU) |
|---|---|---|---|
| 1 | Micro-enterprise | 1-5 | 1-9 |
| 2 | Small Enterprises | 6-25 | 10-49 |
| 3 | Medium enterprises | 25-250 | 50-249 |

## DEFINITION OF E-COMMERCE

Electronic business began in 1996, when the Amazon.com Company began to bring online electronic book industry, enabling the presentation of catalogs, brochures, payments procedures etc. Electronic commerce refers to a wide range of online business activities for

products and services. Increasing the use of Internet, the concept of commerce in electronic environment called electronic commerce, or shortly e-commerce began to progress. It also deals with various forms of transaction in which the parties interact electronically instead of a physical exchange. Electronic commerce is the use of electronic communications and information processing technology in business transactions to create, transform, and redefine relationships to create values among organizations. It is associated with buying and selling via the Internet, conducting transactions involving the transfer of ownership or rights to use goods or services through an intermediary computer network. In general electronic business can be defined in several ways:

1. Regarding the aspect of communication it means sending the information, products, services, or payments between phone, computer networks or other means.
2. In terms of business it means the use of digital technology in automated business processes.
3. In terms of services it presents a tool that provides for users faster data services relating with the offer of services.
4. In terms of on-line perspective it provides the possibility of buying and selling products and information between the Internet and other on-line servers.

E-business categories determine the categorization of companies that deal with e-business and e-commerce and business relationships that they have with partners, suppliers, customers and their employees. Specific terms used to present these reports are:

a) Business-to-business known by the acronym B2B (Business-to-Business);
b) Business to customer - B2C (Business-to-Consumer);
c) Customer to customer - C2C (Consumer-to-Consumer);
d) Business to government / public sector) - B2G (Business-to-Government);
e) Customer to business - C2B (Consumer-to-business);
f) Business to employees - B2E (Business-to-EMPLOYEES);
g) The government / public sector to the government / public sector-G2G (Government-to-Government).

## ADVANTAGES AND DISADVANTAGES OF E-COMMERCE
## ADVANTAGES OF E-COMMERCE

The biggest advantages for a customer using e-commerce are:

- You can buy / sell items from anywhere using one computer only by providing an internet connection.
- Selling can be done 24 hours a day, 365 days a year - online stores never are closed.
- Different things of goods (especially items such as books and music) are easily accessible without spending time and money to visit the stores physically.
- Savings time, the fastest procedure for purchase / sale
- Customers have access to a wide range of products
- Easy to start and manage a business
- There are no geographic restrictions for clients.

## DISADVANTAGES OF E-COMMERCE

- Many goods cannot be purchased online
- Payment by credit card requires faith in the security system.

- Delay in time, delay in receiving goods
- E-commerce does not allow us to experience the product before purchase
- Inability to sell some products, especially those with high costs
- Cultural and legal barriers
- Portals should be protected from virus attacks and other acts of electronic and spying vandalism by special security systems.
- Everyone, good or bad, can easily start a business.
- There is no guarantee of the product quality.
- Mechanical failures can cause unpredictable effects 9 over the processes total.
- Confidentiality of e-transactions is not guaranteed.

## E-BUSINESS AND SMEs

E-Business encompasses a broad spectrum of business processes and technology resource configuration to facilitate business managers to perform their duties, to interact with customers and develop their businesses. Studies show that e-commerce offers a promising way for organizations to meet the challenges of an ever-changing environment. Developing countries remain behind and are skeptical about adopting technologies regardless of their effectiveness. Various factors identified can be classified as internal barriers which can be solved within the organization by the organization itself, and external barriers that need to be addressed by the government intervention or by the cooperation of SMEs. In many countries, SMEs are widely regarded as the powerhouse of the economy which should gain knowledge of the international trade opposing the globalization pressures arising from e-Commerce operations. The ACTC program (Advanced Communications Technologies and Services) is the focus of research of the European Union in the future of communication technology. A number of projects within the program have studied how e-commerce can be accessible to SMEs. My research focuses on SMEs because of the roles that have in economic development the developing countries and because these businesses easily adapt to new technology, compared with large businesses which may have obstacles arising from bureaucracy and staff hierarchies.

Electronic commerce brings changes in communication, business method, market structure and access to marketing, as well as changes in daily activities. From the adoption of e-Commerce, SMEs benefit reduced administration costs, reduced production costs, reducing the time, increase on sales, but more important is the direct income. Electronic commerce helps to strengthen the market position by opening new opportunities with high potential to increase revenues from sales, business model and the integration of modern information technology in business strategy. New technology transforms business processes, the manner by which are created and marketed products and services, the dynamics of competition, organizational structure of the enterprises and nature of the undertaker. This includes marketing, customer supply management, sales management, product development etc. Expanding the scope of the market is one of the main advantages of doing business on the Internet. A small company now has the ability to reach markets beyond its traditional skills gaining access to markets beyond the current customer base. For SMEs, the greatest long-term not material benefits are improving the quality of information, improving internal controls of business and improving relationships with business partners.

## THE CASE OF THE REPUBLIC OF KOSOVO

During the fourth quarter of 2014 (Q4 - 2014) is recorded a total of 2,175 enterprises, while in the previous quarter (Q3 - 2014) were 1919 of them, which has been an increase between the quarters of the same year to 256 companies, expressed in percentages is 13.3% more new companies in this quarter. Increase of 20.5% of new businesses is observed compared with the same quarter of the previous year (Q4 - 2013).

The category of employees number by 1-4 (employees) represents about 2,118 companies or 97.4% of new enterprises, category with 5-9 with 35 (1.6%), 10-19 with 17 (0.8%), 20-49 with 4 companies(0.2%), at category with 250+ category, there is only one enterprise, while in other categories there is no company registered in this quarter.

Table 2. Number of SMEs for Q4 2014

| Classification | Number of employees | Number of businesses | % |
|---|---|---|---|
| Micro enterprises | 1-9 employees | 2153 | 99,0 |
| Small enterprises | 10-49 employees | 21 | 1,0 |
| Medium enterprises | 50-249 employees | - | - |
| Large enterprises | 250 and more employees | 1 | 0,0 |
| Total: | | 2175 | 100,0 |

Source: Statistical Agency of Kosovo

SMEs have been dominant in the creation of gross domestic product (GDP and employment in all sectors of business. The Internet has given small and medium enterprises (SMEs) the ability to overcome the size limitations and resource restrictions. The Internet market is dynamic and relatively young and companies are getting used to the idea that success in business depends to a great extent on the presence on the Internet. The data show that e-commerce is used primarily for e-mail, for providing necessary information and data exchange, and less for buying and selling products and services.

The communication by e-mail for personal reasons is used mostly by younger generations as well as adults up to age 40. However, labor and business communication is more used in males. This may provide a new view regarding career differences based on gender and which should be investigated further by experts in this field. In terms of age and e-mail communication regarding job offers, the age group 30-39 years is more active than other groups.

Several research reports conclude that Internet penetration in the entire territory of Kosovo is evolved with global developments and on the basis of users are 76.6% while 84.8% for households. Kosovo citizens use the Internet on the same scale as citizens of Europe, Kosovo currently is ranked 32$^{nd}$ place in Europe (and is ranked in the 95$^{th}$ place in the world) for user level Internet service. While, in the Balkan region is ranked in the 4$^{th}$ place, behind Greece (member of the EU), Turkey, Croatia and before Albania and Macedonia. Kosovo currently is estimated to have more than 120 000 Internet subscribers and these numbers are increasing every day. It is common to think that the Internet will increase the difference in the development between developed countries and poor countries even though most countries are almost beginners in this field. In reality, a large part of e-commerce depends more on intensive learning than capital and one of the biggest expenses of a strategy to use the Internet are human resources. Kosovo should utilize these resources because the cheap labor market is the young age.

## METHODOLOGY

The study aims to provide empirical evidences about the impact of e-Commerce in the development of SMEs in the Republic of Kosovo. Structured questionnaire consisting of ten questions has been the instrument used to collect all the data for this study. Questionnaire was sent to managers of companies who understand the nature of the investigated cases by this survey and is complemented by these managers. Are surveyed 52 companies (micro, small and medium enterprises) in the Pristina region with the intention of studying local businesses operating in this region? Companies are selected by their data on the basis that they had 250 employees or less. Through this study, our goal was to find answers to some of the following questions:

- What type of ICT is used by SMEs?
- What are the motives for investment e-Commerce?
- What are the benefits obtained by e-Commerce?
- What is the stage of development of e-Commerce?
- Does it help the adoption of e-Commerce in the performance development of their business to Kosovo' s SMEs?
- Do Kosovo's SMEs follow the world trend of commerce on Facebook?
- Understanding the barriers and challenges faced by SMEs in adopting technology

## DATA ANALYSIS

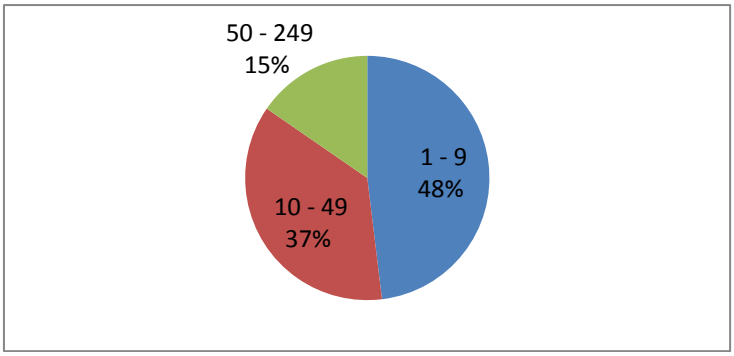



Figure 1: Number of employees

The first question has to do with the number of employees. Answers are provided by micro enterprises with 1-9 employees, small businesses with 10-49 employees and medium enterprises with 50-249 employees. According to the survey results 25 or 48% of business respondents act as in micro enterprises, 19 respondents or 37% of respondents work in small enterprises, and 8 respondents or 15% are medium-sized companies. The chart shown above can be concluded that the majority of respondents are business entities in micro enterprises with number of employees from 1-9 workers.

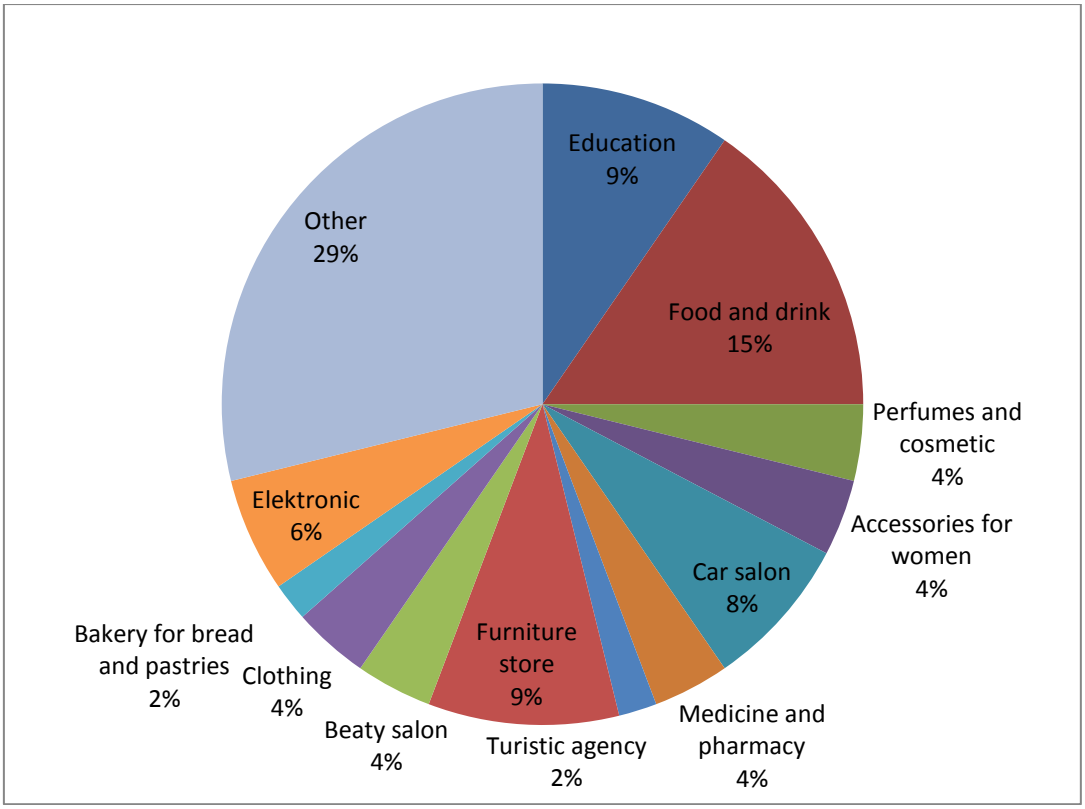



Figure 2: Type of Business

One of the questions had to do with determining the type of business or business sector in which they operate. Some business categories were: education, food and beverage, perfumery and cosmetics, accessories for women, cars salon, medicine and pharmacy, travel agency, furniture, beauty salon, bakery and pastries, clothing and electronics. Respondents in the last category could write their type of business if it was not included in the offered categories. Distribution has been almost the same for all types of businesses. In the "other" category, 15 or expressed in percentages 29% of companies that we surveyed are companies that deal with printing, hairdressing, tailoring, design companies, processing stone companies, studio photography, transportation companies, medical clinics. All these companies are from Prishtina region.

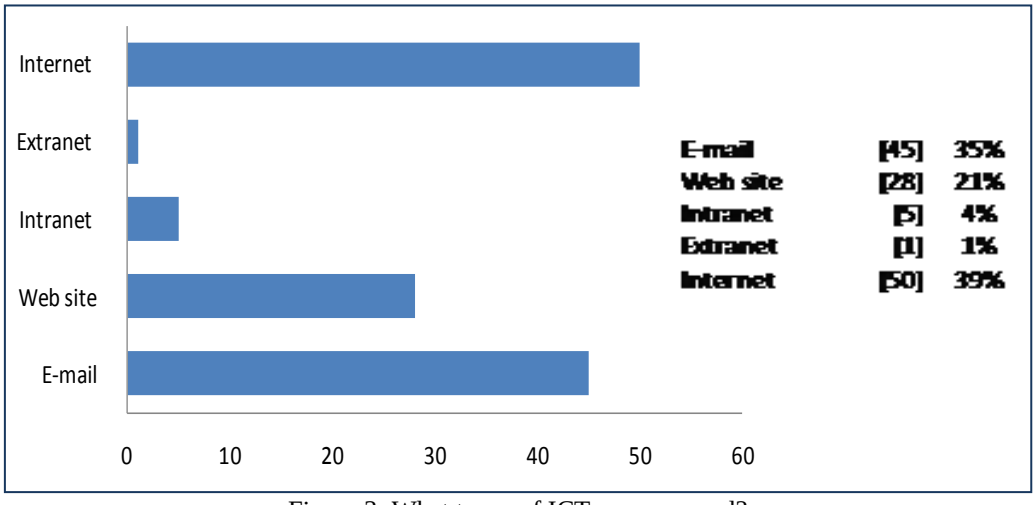



Figure 3: What types of ICT are approved?

The third question was: What types of ICT are approved? Of the respondents, only eight did not reply. Choosing the types of ICT approved by respondents were: Internet, intranet, extranet, web site and e-mail. Results of responses that we receive are displayed in the chart above and most of them use the Internet (39% or 50 respondents choosing this type of ICT), then 35% or 45 respondents use email and 21% or 28 respondents have their own websites on the Internet. This shows that most businesses use the Internet, e-mail and web-site as information, in communication technology.

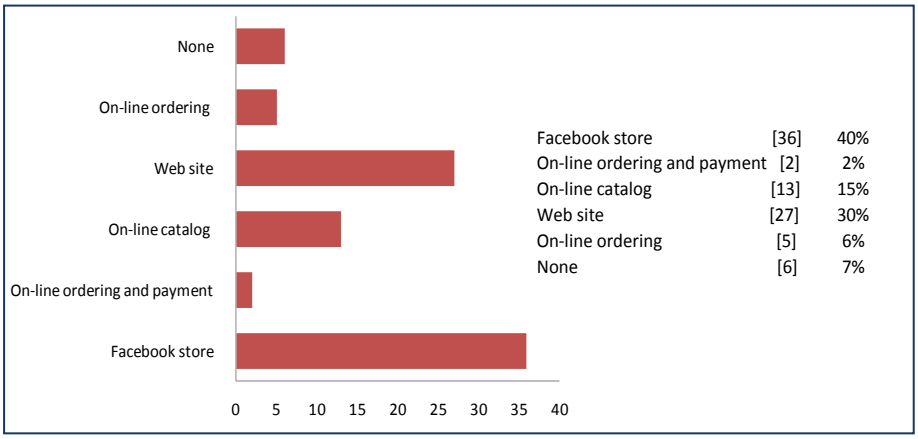



Figure 4: Stage of development of e-commerce

The next question has to do with the level of development of e-Commerce. These include: electronic promotion, advertising, on-line orders, buying and selling goods and services. The respondents were able to answer to the six possible questions from which they could choose one or more choices or none. Respondents had had the option of choosing the answer "None" that include the answers of the respondents who use any type of e-Commerce. The chart presented shows that 30% or 27 respondents have a website, then 40% or 36 respondents have Facebook, 15% or 13 respondents have on-line catalogs, only 2% or 2 respondents perform on-line payment, while 9 respondents answered that use any kind of e-Commerce.

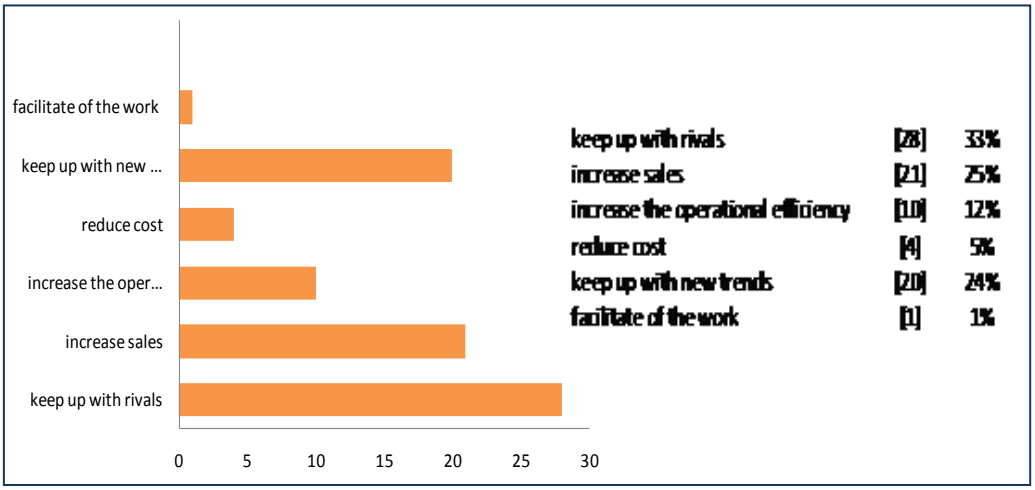



Figure 5: Investment motivation in ICT / e-Commerce

The fifth question had to about the main factors of motivation for ICT and investment in e-Commerce. Respondents were able to select one or more of the six possible answers, so 20 of them or 24% stated that they want to keep up with trends and it was basic motivation to use e-Commerce, then proceed with rivals 33% of respondents, and 25% of respondents the

greater motivation to invest in ICT and e-Commerce is to increase sales, then increase operational efficiency 12%, reduce the cost in 5% of the respondents and for only 1% the facilitation of work is the motivation for this type of investment. From the graph it can be concluded that greater motivation among small- and medium enterprises for the use of e-commerce comes from competition among rivals, increasing sales and updating with the latest trends.

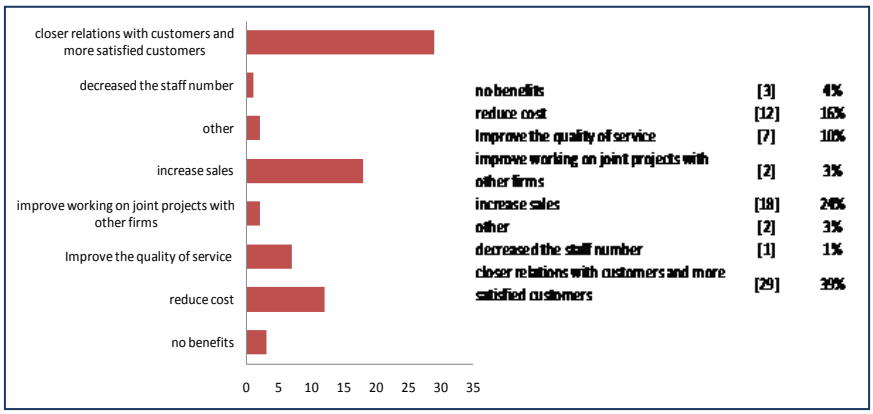



Figure 6: The benefits gained from ICT / e-Business

The main goal has been to find the benefits that have gained companies by application of ICT and e-Commerce. Benefits may be the result of: closer relationships with customers and satisfied customers, improving the quality of service, increasing sales, reducing costs, improvements in working on joint projects with other firms, etc. The chart shows that the majority of respondents (39%) stated that the greatest benefit they gained from this type of trade is having a close relationship with customers and satisfied customers, while continuing to increase sales as benefit to 24%, reducing costs 16%, while the respondents (1%) had answers that reduce the number of staff is to benefit from this type of trade.

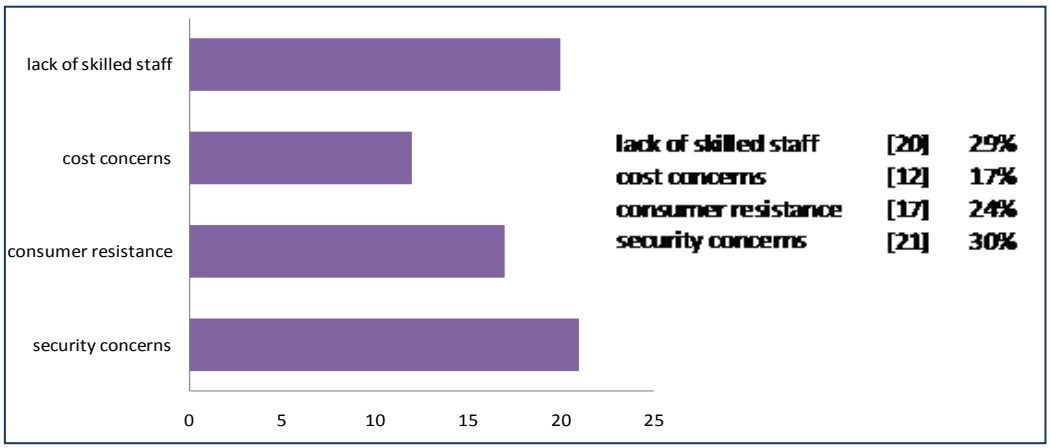



Figure 7: Challenges and obstacles in the implementation of E-Commerce

Companies during the process of implementing e-Commerce confront impediments and face different challenges which are good to know. In this regard are offered four answers. The graph shows that 20 respondents or 29% ,the biggest obstacle is the lack of qualified staff, then 24% or 17 respondents said the biggest obstacle to them is refusal or resistance from consumers, 21 respondents or 30% of respondents said the biggest challenge is security concerns, while 17% or 12 respondents said they are concerned about the cost of implementing e-Commerce. From the results obtained it can be concluded that the major

obstacle for companies is the lack of qualified personnel and at the same time the biggest challenge for them is to provide security for transactions of customers.

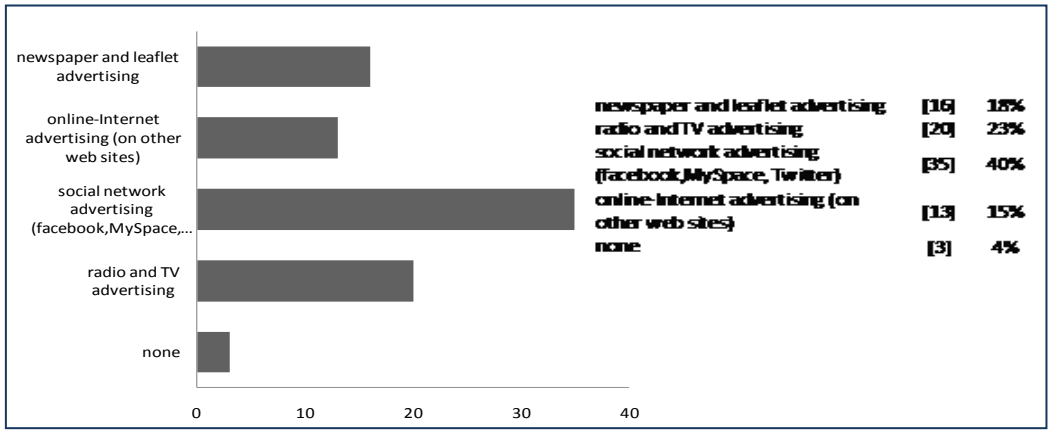



Figure 8: What kind of advertising you practice?

Another question had to do with the type of advertisement's use by companies surveyed. From the graph it can be concluded that 23% of respondents have advertised through radio and television, 16 respondents replied that they advertise in newspapers or brochures, as well as 13 respondents had advertised on websites, while 35 respondents or 40 % responded that they advertise through social networks such as Facebook, My Space, Twitter and only three respondents said that their company has not advertised.

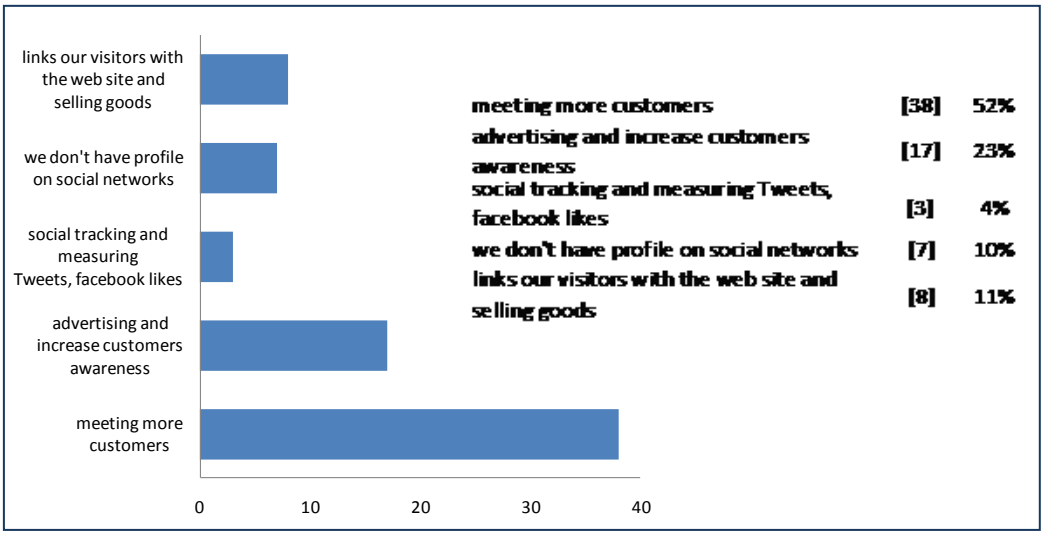



Figure 9: What is the purpose of using the social profile of your company?

Ninth question had offered five answers, including: advertisement to increase consumer awareness, linking the visitors to a web site for the sale of goods, meeting with many customers, social monitoring and measuring the consents in Tweets, Facebook and final answers is choice in this case if the companies do not have profiles on social sites -10%. Most respondents have the company profile social network - Facebook and most of them 38 or 52% said that their social profile is used in order to meet more customers' requirements.

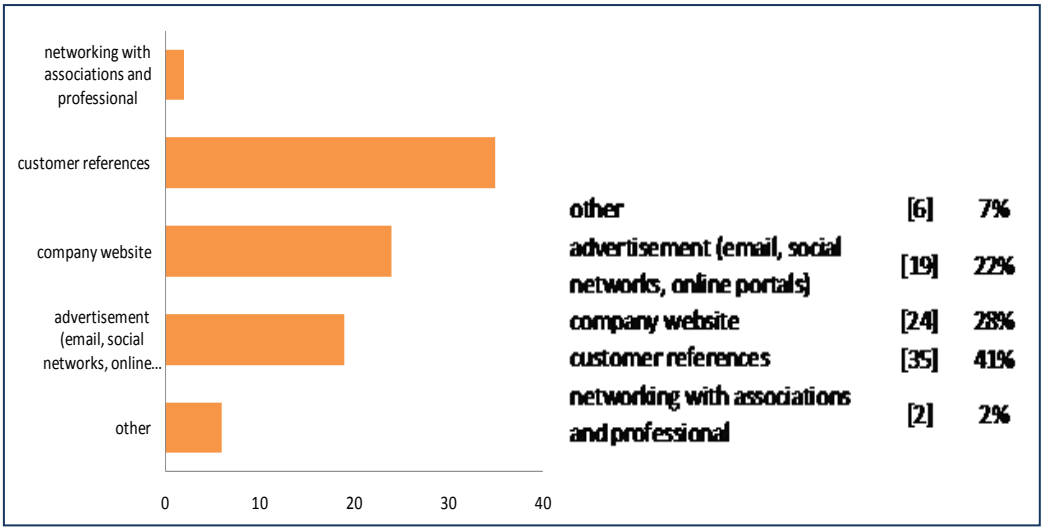



Figure 10: What is the best way to gain new client?

The last question had offered five responses, including: networking and professional associations, advertising (email, social networks, and online portals), company website, clients' references and other. Most respondents 35 or 41% of them stated that the best way to gain new customer is the customer references. 24 of the respondents or 28% said that the acquisition of new customers is achieved through the company's website, 19 or 22% through advertising in social networks, online portals and 2 respondents or 2% said that the growth is achieved through networking with professional associations.

## LIMITATIONS

This study has examined the approval e-Commerce by SMEs. There is no single definition that exists and is universally acceptable in terms of e-Commerce or SME. The lack of a single definition makes comparisons with other difficult studies. Because of the sample size cannot be claimed that the results are generalized to all SMEs. Since this study is restricted to SMEs, located in the region of Prishtina, it can limit the ability to generalize the study results for all SMEs.

## IMPLICATIONS FOR FURTHER RESEARCH

This study confirms that operations of e-Commerce in SMEs in Pristina district are not sufficiently represented and are still at a low level. The study included only SMEs in the region of Pristina, it would be appropriate to expand the study to SMEs throughout Kosovo. Further studies can expand the search model and make it more complete including additional factors. One such factor may be the industry sector in which SMEs operate. This will likely have an impact on reasons for adopting e-Commerce and the benefits received. In recent years, various models and combinations of models were developed to predict the adoption of different technological innovations, such as EDI, inter organizational systems, and e-Business. E-Business can be used to guide SMEs, private sector managers and the Kosovo government in achieving the goal of increasing adoption of e-Commerce by SMEs.

## CONCLUSION

Indicative results obtained show that the operations of e-Commerce in SMEs in Pristina region are still unsatisfactory and should be tried for a larger representation. E-Trade, based

on qualitative and quantitative results is mainly used for e-mail and no purchase and sale of products and services. Results of this study are useful not only for managers of SMEs, but also for government institutions that have economic reasons to be concerned about the development of electronic commerce in SMEs. I believe that the results will provide some knowledge of ICT consultants - with SME customers - in order to improve their service and customer satisfaction which will also affect in the customers growth. Problems encountered during the interview were the lack of qualified staff and security concerns. The greatest motivation for companies to use e-Commerce is to follow the latest trends, to increase sales and to be on the same level with rivals. In Kosovo, there are companies that invest in e-Commerce, some of them do it because it is trendy, but rarely a company does this with the strategy and goals set in advance. Internet technologies are replacing the more costly methods for transport of goods and services and for managing the information customer' s needs. Kosovo' s Companies must become part of the wide community; be engaged in a new era of virtualization and modern technology. Applying technology without careful planning and justification often results in poor performance. Electronic commerce as an innovative process is a good chance for SMEs to compete in their markets and will soon become a competitive necessity for survival.

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