

Difficulties facing the organization, promotion of HR and how to encourage or to motivate investments in organizations

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Abstract. *Markets in which organizations operate today face various problems, both economic and non-economic in nature. They are also disturbed from long transitions, and weak development perspectives of some regions. In order to develop business in the long term and to stimulate investments, the challenges faced by organizations have been the focus of many research institutions in Kosovo, as well as of independent researchers. In this context, the high financial difficulties of businesses have been part of the analysis of many authors. The purpose of this paper is to investigate the financial difficulties of companies operating in the Kosovo market and to offer recommendations that can be useful for businesses interested in setting up and developing, as well as for other institutions. The results of this analysis show that businesses are facing financial difficulties and lack of investment as a result of higher interest rates, administrative barriers, corruption, informal trade, unemployment, lack of reforms in the economy, monopoly, integration, etc. The topics investigated may have special relevance for human resources wishing to make changes or for overcoming financial difficulties, stimulating investment, promotion and business development in the longer term.*

Keywords: *financial difficulties; informal competition; interest rates; advance of human resources, Kosovo economy.*

Introduction

The models of modern organizations are considering new methods and mentality, which require dedication, determination and adequate knowledge from employees, as well as from managers. But organizations in southwestern Balkans still have difficulties of legal and ethical nature. A part of businesses are operating outside the legal system. In this way they negatively influence the market and contribute to wide spread of

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informality in the economy and other negative impacts on the economic system.

In Kosovo, organizations lack long-term funding and capital. Therefore, measures should be taken to ensure accountability and inclusion, as well as to create conditions that make possible the provision of the necessary financial resources for investment. Business sustainability is essential for the country's economy. This is why they must be stimulated in order to have a more active stance against economic development, and exit from the current economic situation.

The aims of the research

In this study we are doing research in the field of resource management in organizations, respectively we investigate difficulties that organizations face and how to encourage or motivate investments, as well as in the field of human resource management. We analyze the impact of inclusive factors as:

- a) The impact of interest rates on bank development organizations;
- b) Policies of competition in the country and beyond;
- c) Non-formal competition as a factor of instability organizations;
- d) Lack of professional human resources in specific economic activities.

Topics addressed in this research may be of particular importance for human resources that wish to make changes or analyzes of the impact of factors such as interest rate, informality, motivation of human resources in organizations operating in Kosovo market.

Methodology

For the preparation of this publication we reviewed the literature for the management of organizations, and human resource management. The sample selection is based on the following criteria:

- a) the organization is operating in the local market and is a legally registered business;

b) the organization offers accessible information.

An analysis of documents and published data was carried on. Data, reports and surveys of participants were analyzed in detail, in order to create a clear picture related to research topics.

The difficulties facing the organization and how to encourage or to motivate investment

Difficulties that organizations face today are numerous, such as:

- a) The impact of interest rates on bank development organizations;
- b) Policies of competition in the country;
- c) Informal competition and destabilizing organizations;
- d) Lack of professional human resources in specific economic activities.

We will investigate in detail the above-mentioned factors.

The impact of bank interest in the development of organizations

Eight banks operate in Kosovo. 90% of total assets, more than 88% of deposits and about 80% of credits are concentrated in the three largest banks in Kosovo. This situation is linked with high risk of credits, low effects of courts, judicial system, etc. (KCB, 2007).

The research of the Institute of advancing study (GAP, 2013) shows that loan rates remain high and nevertheless no steps to get a better situation are taken. The banks find it difficult to operate in business and political environments that do not respect the laws in force and when courts do not do their job. High profits of the banking sector are mainly based on high interest rates on loans. A characteristic of the banking services in Kosovo is that banks charge their users fees for many services that are offered for free elsewhere.

But how could be overcome such a situation?

It is thought that increased competition in the financial system of Kosovo would have resulted in the reduction of interest rates, which affect the growth of new investment interests in all areas of business.

The development of the banking sector from 2000-2010 was associated with the establishment of new banks, with the expansion of products offered, as well as the extension of the geographical span to cover the whole territory of the country. Although a continue effort of banking operators to ensure a broad base of customers in the context of increasing competition is registered, this situation has not had significant effects in reducing interest rates on loans and in narrowing the gap between interest rates on loans and deposits which is high (Authority Kosovo Competition Authority, 2011, p. 20). In general, the banking system in Kosovo is developing very fast. This sector has been steadily increasing in value of assets while the level of bank deposits grew higher compared with the region. The banking sector in Kosovo is characterized by a large presence of financial capital, which has contributed to the advancement of the financial system bringing advanced financial practices in the management of banking operations. Despite the rapid development of the banking system in Kosovo, interest rates have remained quite high. Especially for long-term investment needs they are among the highest in the region. These high interest rates directly lead to higher costs for businesses and impact the competitiveness in the local market, as well as outside it.

The growth of the number of banks and development of the financial market in Kosovo are meant to lead to increased level of competition, but this has not happened until now (The Kosovo Competition Authority, 2011). Interest rates for loans increased, as a result of growing demand for loans. High interest rates continue to remain an impediment to business activities in Kosovo. Reduction of banking interest rates would impact positively on the economy of Kosovo; would have direct implications on the establishment of new businesses and the development of existing ones. Also, increased competition through licensing of new banks and taking concrete measures are expected to reduce interest negative influence.

The impact of market competition policy in the country economy and beyond

Competition is an economic phenomenon, which manifests itself in a free market economy. Kosovo, as the newest country in the world and in southwest Europe, can be considered as the last country that is applying the principles of free market economy, after major changes in the political system. The processes are complex. The presence of high level of risk for business, unfair competition, as well as informal market in which some of the organizations operate are generating the instability of economic, business and organizations (Gjinovci, 2014).

In general, is hard to consider any real competition from businesses in Kosovo. Most of the organizations that operate in this market are still in an early stage of their development. Opportunities to develop faster are limited as a result of the economic policies applied. The market faces a tough competition especially in food industry and construction by countries in the region: Serbia, Macedonia, Bosnia and Herzegovina, etc. As a result of the lack of administrative institutions and the establishment of international segments, for a long time products imported from these countries had tax and customs facilities. They have had direct influence on local organizations that already face numerous economic and non-economic problems. Therefore, a number of problems consist in weak competitive activities, loss of power when considering exporting organizations in Kosovo. The current tax policy is to favor domestic productions.

The nature of economic problems:

- Lack of financial capital. To be more competitive in the market where these organizations operate, wider financial resources are required. They are difficult to be obtained. Economic partnerships are difficult to achieve under the current conditions, as banks offer loans but bank interest rates are the highest in the region. High banking interests are leading to the extinction of many organizations.
- Lack of experience in global markets. Organizations that operate in this market are quite limited; just a few businesses offer services in the global market.
- Lack of experts with designated profiles. In recent years the number of professionals and their willingness to study has increased. Nevertheless

some specialists and certain professions, including in the field of human resources (HR) are still missing in the region.

- Weak promotional and marketing activities.

- Weak legal infrastructure. Applicable laws are very democratic. For instance they offer the opportunity to appeal, but expectations for the review of complaints are long, many times they extend over more years. Although for years in Kosovo international legal structures, as EULEX², have been installed, citizens are facing difficulties in the protection of their rights; they are faced with the shortcomings of the justice system.

- Lack of information. At the same time Kosovo is a country of diaspora, which is very rich/ generous and their financial resources could influence the development of the current organizations and set of new ones. But to have direct investments the interested sectors have to be informed, to decide in what to invest and which conditions are suitable. Increasing institutional support could lead to benefits both for society and for investors. Now organizations are faced with weak institutional support, as well as other administrative barriers.

Kosovo is going through a process of political and economic transformation. For instance it has to deal with the industrial structures inherited from the Yugoslav federation based on heavy industry. At the present Kosovo is still unable to face the requirements and standards of the market economy.

Kosovo is the last country that has entered the transition processes in southeastern Europe. As a result of local policies and conflicts, the country and the region have gone through a process of long and painful transition. Consequently Kosovo faces continue economic decline and recession and, therefore, difficulties in developing businesses. Kosovo companies face unfair competition created by businesses that cause adverse effects to consumers, as well as other unlawful practices such as the sale of goods of lower quality than is stated, false declaration of goods in order to avoid paying taxes, departure payment of income derived on account and payment of cash flows of the gray economy, the sale of goods without the required accompanying documentation, keeping of irregular and inaccurate records on the movement of goods, etc.

2. EULEX, European Union Rule of Law Mission in Kosovo (date 19.05.2014).

Informal competition as a factor of instability of organizations

The phenomenon of informal economy characterizes all countries, and it has been present at all times. Today it is found in most developed countries, but in these countries it is always under control and not endangering normal economic movements.

The informal economy is defined as the economy otherwise illegal, unofficial, and parallel to the black market (Komoni, 2008). Among the key factors that influence the decision to enter into the gray area of business are:

- Slow functioning justice system and law enforcement mechanisms;
- Weak administrative control level towards economic liberalization;
- Tax charges, macroeconomic instability and destruction of the payments system.

To understand the economy it is necessary to study its both parts, formal and informal. The need for the study of unregistered economic activities primarily stems from the requisite for effective implementation of the macroeconomic policy of the state (Suceska, 2006). Informal economic forms differ more or less from place to place. It appears in various practices and in almost all areas of economic activity:

- a) Import and export of illegal goods.
- b) Cash Flow outside payment services. It is typical for many countries the utilization of cash for business. This form is quite common in the Balkan countries, and it seems that for a long period of time it will not be replaced. Doing business in cash is easy especially after the loss of confidence in banking, and legal systems. Therefore, consumers as well as service providers prefer cash. This phenomenon has a significant impact on the growth of the informal economy.
- c) The smuggling of various goods in the domestic market. Such action is quite easy considering the extent of the territory of Kosovo and the problems faced by neighboring countries.
- d) Elusion from paying taxes and fees, the tax evasion and the fraud of the tax system. The period of economic transition, war, conflicts, suffering, have resulted in uncertainty, as well as distrust in the state assistance.

e) Misuse of official duty, commercial or public. Absence for longest period of economic growth, lack of perspectives, and lack of personal ethics has created conditions for misuse of official position or business.

Illegal economy has many negative impacts on the economy as well as for the society. Some consequences are unpredictable. A partial list of the effects is:

- The creation of unfair competition,
- Erosion of morality in business,
- The creation of false statement on real income and
- Negative impact on legal businesses.

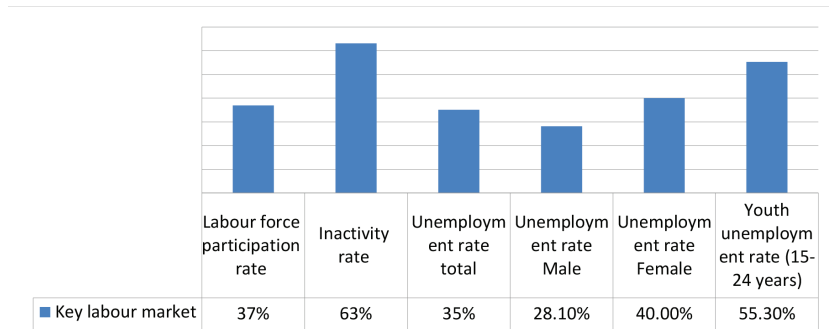
Business models today are oriented towards new knowledge; this is the reason why more and more businesses are considering resources and human potential, requiring a new approach, a new model of thinking and a new structure. So a new way of approach of certain issues is necessary, businesses are required to put the individual in the first place.

Unemployment is an impediment to the business. In most countries of the world human capital is considered as the most important factor for economic growth, innovation and investment. The quality and flexibility of the workforce is one of the main factors influencing the investment decisions of foreign investors. Kosovo faces high unemployment rate and in some cases the lack of appropriate qualifications. The main challenge for the country's economy continues to be a high unemployment rate, which directly affects the development of genuine businesses. Based on the current trend of economic growth and the generation of new jobs in the economy of Kosovo can be considered that the unemployment rate is not expected to decrease significantly in the medium term (BQK, 2010).

Based on data from the Statistical Office of the Republic of Kosovo (ESK, 2010), the unemployment rate in Kosovo exceeds 45%. According to the data published by SOK (2014) unemployment rate is 36.9% in total.³

3. <http://ask.rks-gov.net/> (date 19.05.2014).

**Figure 1. The key labor market in RKS, state statistic
(<http://ask.rks-gov.net>).**



Such high unemployment affects the purchasing power and thus the creation of new business ideas and new places to work.

The role of managerial barriers, and the role of corruption in markets.

Empirical and theoretical studies on this phenomenon show that a favorable condition for the existence of corruption exists when a public resource is brought under the control of a person or a group of administrative public workers (Corruption in AL, 2005). The independence of businesses and anticorruption are some of the weakest political dimensions of South East European countries. While there are laws and institutions against corruption, little has been done for their implementation and enforcement; it has been influenced by factors indirectly (Transparency International, 2012). The experience of developed countries shows that the high level of corruption impairs circulation of capital, the level of investment, economic growth, etc.

By all indications, corruption is a serious problem in southeast European countries including some European Union countries (EU anti-corruption report, 2014).

Countries in the region, including Kosovo, are committed to:

- adopt international anticorruption instruments,
- strengthen of national legislation,
- promote business integrity,
- create a more active civil society in the fight against corruption.

Despite the measures undertaken and the adaptations to date, results have been limited to preventing or minimizing the barriers created by the administrators appointed to local or regional institutions including several European Union countries, which directly affect the investment or investor loss.

K. Shaipi (2008) underwent a study to assess, among other aspects, the difference between perceived and encountered corruption. When posed a straightforward question: ‘Have you ever offered bribes to institutional officials?’ most of the businesses do not have the courage to respond and the level of sincerity in their responses is doubtful. Some 52% of respondents refused to answer this question, which leads one to believe that they are not being quite honest in their responses. The rationale behind such a claim is that if the respondents, indeed, have never offered bribes, they would not hesitate to answer, as a negative reply would not hurt their reputations. Through that argument, one can conclude that the percentage of respondents who have offered bribes to public officials should be represented as an aggregate percentage of those who confirm having offered bribes (over 14%) and those refusing to respond to the question. If the two percentages are added together, we get an alarming 66% of businesses interviewed that have offered bribes in the past.

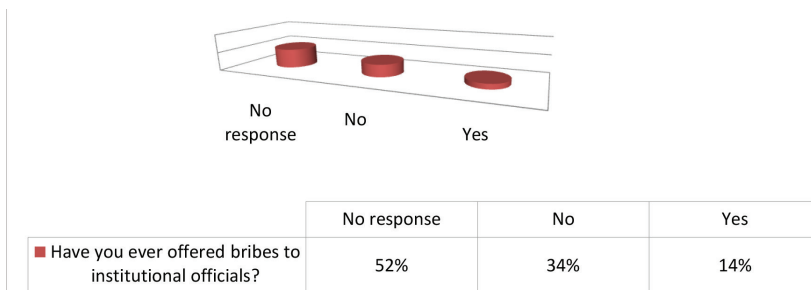


Figure 2. The experience in offering bribes

This phenomenon occurs frequently and is common in countries that have problems with the rule of law, which characterize the administration especially in Eastern European countries. Corruption is present and quite problematic especially for countries that go through periods of transition; these countries are usually characterized as ineffective in combating this phenomenon, which has a direct impact on business and beyond.

Lack of professionals in specific economic activities

For an advanced economy, state policies should be directed at building professional human resources. These persons will be able to compete without any problems in the labor market, especially in the requirements of foreign companies, but also local ones that could be competitive on the global market. The question which was addressed to the respondents was: How supported the advancement of staff under preparation, education and occupation in your organization? From interviews held with employees in public organizations such as Post of Kosovo (PT) and Post Telekom of Kosovo (PTK), we notice that 90% of employees surveyed consider that their organization does not support the advancement based on professional preparation, based and experience or education. These organizations, as well as other organizations, do not distinguish between Bachelorit, Faculty, Masters and PhD graduates salary (Gjinovci, 2013).

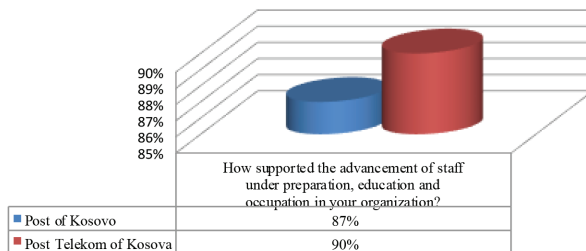


Figure 3. The supported the advancement of staff under preparation, education and occupation in PT, and PTK

Therefore, why not make it a realizable dream to work in organizations that operate in Kosovo. The strategy would be to determine the younger generations to orient themselves towards those professions needed most. For meaningful labor market professionals companies also are paying more. Lack of experts designated profiles is hampering the local production to be more competitive. In recent years the number of professions and willingness to study have greatly increased. But still, certain professions and facilities are still missing in the region.

Therefore, food organizations should take positive measures for favoring and support experts in their organization. Especially, this applies to organizations that deal with the production of biscuits, milk, chocolate,

etc. Studies conducted in several large commercial organizations operating in the local market; Viva, Super viva, Inetex, ETC, etc. Although Slovenian dairy products should be more expensive because of higher costs, as the labor force, distance, other operating costs. Making these products attractive would be the result of investment in improving their quality. But to achieve this, manufacturing organizations need to hire professional human resources. Therefore organizations should consider concrete advancement of human resources through: Hiring professionals outside (the external site), which in some instances is quite expensive, and to support human resources in specialized education, even when they are quite costly.

How to encourage or motivate investors

Some countries in the region have improved business environment, despite that the southwestern Balkan region as a whole suffers from a negative image for the support of businesses and foreign investment. Developing marketing skills and learning how to promote the region as an attractive destination for foreign investment will be a priority in the future. But until today, there was no significant change regarding encouragement and motivation of the serious investors and or for ideas. A challenge that characterizes the region, including Kosovo, is investment protection. But the risk of investment in the country and in the southwestern Balkans is very high. Most of investments are in individual businesses. Also there are missing financial consultants in the business service as well as specialized offices for advising and giving of recommendations for decisions related to the operations of banks and financial markets (Civici, 2009).

According to the World Bank report (2011), facilities for doing business put Kosovo in the 117th place, Albania on site 82, while Bosnia and Herzegovina in the 125th place. Problems that discourage businesses include: electricity, registering property, protecting investments, enforcing contracts, getting credit, etc. While, according to the World Bank report (2013), doing business positions Kosovo in the 98th place. Whereas in latest report (2014), Kosovo is ranked in the 86th place, but this position is still under desired level, and the country should do more to down below.

Years	Place			
	Kosovo	Albania	Bosnia and Herzegovina	Montenegro
2011	117	82	125	/
2012	117	77	127	/
2013	98	85	126	/
2014	86	90	131	44

Figure 4. The rapport of doing business in some states in Balkan region and in Kosovo

Regarding institutional support to businesses, Kosovo is far behind the countries of the region. Almost all countries have taken concrete steps to facilitate the administrative procedures of business registration procedures. Procedures referring to importing processing machinery, as well as manufacturing are simplified.

Businesses in Kosovo are still at the stage of the impossibility of coping with challenges, especially with increased competition in the regional market, limited productions capacity, the low quality products and services, as well as no professional managers.

Conclusions

Businesses face a lack of cooperation and joint investment with local and international partners due to major negative factors such as legal barriers, lacking of political and economic present stability, despite laws guaranteeing investment protection. By reducing interest rates banks will positively contribute to the economy of Kosovo, would have a direct impact on the establishment of new businesses and the development of existing ones. The reform of the financial sector and the creation of financial markets are necessary. Other transformations required are essential changes in tax policy since the current tax policies do not favor domestic production, and discourages the development of manufacturing businesses in Kosovo.

High interest rates adopted by the management of the banks are justified by the high-risk loans, as well as the low efficiency of judicial system.

Therefore concrete steps should be taken to strengthen the judicial system (raising the performance of this system). Most of the investments are in individual businesses and when facing certain financial problems they remain at the mercy of the market. The solution lies in finding individual choice as institutional support is lacking. Institutions therefore need to support businesses in generally.

Implementing independent programs to stop economic crime, which is a syndrome of some European countries, including some EU countries. Tax and customs facilities are needed for businesses that use the region that means the application of tariff incentives for investors. It is about reducing customs duties on capital investment and reproductive material from 10% to 0, and reduction of the VAT rate on imports of capital equipment. Extension of the tax system would affect the growth of the number of taxpayers and certain tax deductions.

Employment in public administration is based on certain criteria, taking into account the professional training and experience of human resources. In many cases during the recruitment process of candidates do not meet specified criteria of human resources. Public administration reform is not only the responsibility of government but is also the responsibility of civil society including the business. Restructuring of the energy sector and support the privatization of distribution as a measure to overcome the energy crisis during which indirectly influencing the cost of setting up businesses. Promote investment, support businesses in improving competitiveness through increasing or improving productivity.

Kosovo border points should be covered properly in order to prevent the introduction of higher excise items through illegal routes as from the border with Serbia. Bilateral and multilateral agreements and respect the agreements signed. Obstruction of any direct or indirect interference in the justice system is necessary, by not ignoring the international institutions. Minimization of smuggling which is growing as a result of constraints and implications for the institutions to be called on behalf of the establishment and development of economic and legal systems.

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