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GRADUATION THESIS

MASTER STUDIES

**The impact of human resource managerial practices on SME  
performance in South-Eastern Europe – Evidence from Kosovo**

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Declaration:

*I, Fiona Pirana declare that: (1) This graduation thesis represents my original work except in the cases of citations and references and (2) This graduation thesis has not been used previously as a thesis or project in these faculties or other universities/colleges/institutions.*

## Abstract

This study analyses the correlation between the application of human resource management practices and the associated SME performance. In particular, the study focuses on three different practices: (1) formal selection and recruitment process, (2) trainings and development for new and current employees and (3) performance measurement and compensation systems. Moreover, the study explores the potential of SMEs to apply these practices in order to increase their performance.

SMEs are considered to be highly adaptable to market conditions which is why they have thrived in many economies in the world, especially in transition economies in the South-Eastern Europe. These enterprises comprise the highest percentage of total enterprises in the region. This study summarizes the most common obstacles that SMEs in the region face. Furthermore, primary data is obtained through a survey conducted with 18 Kosovar SMEs which provides first-hand data on the obstacles faced by SMEs as well as the application of human resource management practices. The findings from the survey reflect the current situation regarding the adaptation of HRMP by SMEs in Kosovo and are not intended to create statements which can be generalized.

The gathered data are used to test three hypotheses which emphasize that the use of human resource management practices such as: formal recruitment, trainings and pay for performance systems, have a direct impact on firm performance. According to the findings of this empirical research, none of the null hypotheses were rejected due to the lack of sufficient statistical evidence to do so. Therefore, the hypotheses of the study prevail emphasizing that human resource management practices are impactful to the performance of enterprises of small and medium size.

*Keywords: Human resources, SMEs, Firm performance, South-Eastern Europe.*

## Astratto

Questo studio analizza la correlazione tra l'applicazione delle pratiche di gestione delle risorse umane e le prestazioni associate delle PMI. In particolare, lo studio si concentra su tre diverse pratiche: (1) processo formale di selezione e reclutamento, (2) formazione e sviluppo per i dipendenti nuovi e attuali e (3) sistemi di misurazione e retribuzione delle prestazioni. Lo studio esplora il potenziale delle piccole e medie imprese di applicare queste pratiche al fine di aumentare le proprie prestazioni.

Le piccole e medie imprese sono considerate altamente adattabili alle condizioni di mercato, motivo per cui hanno prosperato in molte economie del mondo, specialmente nelle economie in transizione nell'Europa sudorientale. Queste imprese rappresentano la percentuale più alta del totale delle imprese nella regione. Questo studio riassume gli ostacoli più comuni che le piccole e medie imprese della regione devono affrontare. Inoltre, i dati primari sono ottenuti attraverso un'indagine condotta con 18 piccole e medie imprese kosovare che forniscono dati di prima mano sugli ostacoli incontrati dalle piccole e medie imprese e sull'applicazione delle pratiche di gestione delle risorse umane. I risultati dell'indagine riflettono la situazione attuale per quanto riguarda l'adattamento delle pratiche di gestione delle risorse umane da parte delle piccole e medie imprese in Kosovo e non intendono creare dichiarazioni che possono essere generalizzate.

I dati raccolti vengono utilizzati per testare tre ipotesi che sottolineano che l'uso di pratiche di gestione delle risorse umane come: reclutamento formale, formazione e sistemi di pagamento per le prestazioni, hanno un impatto diretto sulla performance aziendale. Secondo i risultati di questa ricerca empirica, nessuna delle ipotesi nulle è stata respinta a causa della mancanza di prove statistiche sufficienti per farlo. Prevalgono, quindi, le ipotesi dello studio sottolineando che le pratiche di gestione delle risorse umane hanno un impatto sulle imprese di piccole e medie dimensioni.

Parole chiave: *Risorse umane, Piccole e medie imprese, Performance delle imprese, Europa sud-orientale.*

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## List of abbreviations

BH – Bosnia and Herzegovina

EC – European Commission

HR – Human resources

HRMP – Human resource management practices

OECD – Organization for Economic Co-operation and Development

SEE – South – Eastern Europe

SME – Small and Medium Enterprise

# 1. Introduction

This study analyzes the statistical relationship between managerial practices applied and the associated performance of small and medium enterprises (SMEs) in the South-Eastern Europe. It is based on the assumption that a positive relationship between the two exists. In the context of this study, the term “managerial practices” is referred to human resource management concepts such as: target setting for employees, continuous performance measurement, personnel trainings and employee compensation based on incentives.

The focus of this study is on the potential growth opportunities for SMEs through the application of managerial strategies related to human resource management. Three managerial practices will be discussed in this study: (1) the recruitment and selection process of new employees; (2) training and development of new and current employees; and (2) performance measurement and employee compensation.

In principle, the study focuses on SMEs which operate in the region of South-Eastern Europe. These enterprises are incredibly important for the region – especially for countries where economic development is significantly lower than in others. The role of SMEs has been increasingly vital for transition economies because of their ability to adapt and respond to system changes and their potential to create job places (Hashi & Krasniqi, 2010). According to OECD (2020), SMEs are defined as enterprises which employ less than 249 employees, and they are considered to be the main pillar of economic development in the world.

The OECD Database has been used in providing data regarding the SME climate in the South-Eastern Europe. Moreover, questionnaires were distributed to Kosovar SMEs in order to gather primary data for analysis regarding the above-mentioned topics.

## 1.1 Problem definition

SMEs are considered to be engines of economic growth. As such, they face different challenges and obstacles which may limit their economic expansion. The challenges which they face include fluctuations in the levels of demand and supply, limitations in access to finances, institutional barriers, the ever-increasing competition and others. In the case of South-Eastern Europe SMEs, challenges include obstacles deriving from the transition economies or developing economies of the region as well. Therefore, such enterprises are often faced with high levels of uncertainty which is related to the political and socio - economic environment of the region.

Considering such issues, it is important to study methods which can potentially increase the performance level of SMEs and ensure their stability in the market. The application of managerial practices can be beneficial to these enterprises. However, these practices are often not applied in many SMEs in the region. This is the main problem which will be addressed in this study. This study has the potential to give relevant information to business owners of SMEs. The research offers a general analysis on the benefits which come from applying more formal managerial practices. Consequently, the change applied in SMEs management is expected to have a multiplying effect on national economies.

Hayton (2015) argues that managerial practices are an important factor in SME growth. He emphasizes that effective managerial practices can influence the performance of a firm through increasing the commitment level of employees and lowering staff turnover. At the same time, they promote efficiency which ultimately increases firm productivity. Lastly, the author emphasizes the existence of considerable evidence that these practices should be applied in SMEs. Therefore, it is important to know these practices in depth so that they can be applied in SMEs of the region.

## 1.2 Research purpose

The purpose of this research is to offer a deeper knowledge on the managerial practices which can be applied to improve the performance levels in SMEs. SMEs operating in South-East Europe are often characterized with a significant level of informality. Hence, the study analyses the advantages that come from formalizing the management of SMEs.

What is more, SMEs constitute the highest number of total enterprises in the world's economy. For this reason, tools and policies which have the potential to increase firm performance should be studied on a firm level.

## 1.3 Research objectives

The objectives of this research include:

- a) To study managerial practices such as: (1) the recruitment and selection process; (2) offering trainings and development services for existing and potential staff; and (3) measurement of employee performance and compensation systems applied in SMEs.
- b) To research the current situation of SMEs in the South-Eastern Europe. Regarding this, statistical data is provided over the economic situation of SMEs in each country of the region.
- c) Apart from reviewing local, regional, and international literature, primary data is gathered from surveying SMEs operating in Kosovo. The findings from the survey of the businesses are compared with the corresponding suggestions of the literature.

## 1.4 Research questions

The research questions of this paper include: (1) which human resource managerial practices can be applied to SMEs in order to improve their performance levels; (2) what the advantages are from the application of such practices in SMEs; (3) what the business climate for the operating SMEs in the region is; (4) which managerial practices are most commonly used in these enterprises; and (5) which managerial practices are currently being applied in SMEs in Kosovo.

## 1.5 Research hypotheses

The null hypothesis of this research is that SME performance can be considerably improved through the application of advanced managerial practices. To test this hypothesis, the study reviews relevant literature which focuses on the region of South-Eastern Europe. In addition, the findings of the survey created are thoroughly analyzed. Through the study of the primary and secondary data obtained, a conclusion is stated whether the null hypothesis of this research should be approved or not.

## 2. Literature review

This section presents a summary on studies conducted up until now on the topic of human resource management practices (HRMP) on small and medium enterprises (SMEs). The HR management practices explored in this study include (1) the recruitment and selection process; (2) training and development of employed staff; and (3) performance and compensation systems applicable in SMEs. Particularly, these practices were chosen for this study because they are considered by researchers as practices which are often used in SMEs. Moreover, these practices are applicable to SMEs instead of being suitable to large enterprises only. The arguments provided by researchers regarding these two statements are mentioned in the paragraphs below.

Since the study focuses on a particular region, this section also analyses the economic environment and provides details on the recent figures of SMEs in the South-Eastern Europe (SEE) countries, including Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Serbia, North Macedonia, Montenegro, Kosovo and Romania. Cassell et al. (2002) consider that there is a lack of sufficient studies done on HRMP on SMEs, which is why the wide range of countries has been involved in this study - to generate a broader collection of literature which can be reviewed during the completion of this study.

Firstly, this section analyses the HRMP and their proven impact on firms' performance. Then, it focuses on HRMP which can be applied, specifically in SMEs. Thirdly, it studies the economic environment in which SMEs operate in SEE including the challenges they face due to the turbulent economic climate dominating in the region.

### 2.1 Importance of HRMP to SMEs

According to Ahmad & Schroeder (2003), the human resource system is defined as a set of distinct but interrelated activities, functions and processes that are directed at attracting, developing, and maintaining a firm's human resources. The authors state that effectively managing this system is crucial to enhancing operational performance in different types of organizations. In addition to the beforementioned statement, Nguyen & Bryant (2004) define human resource management as the strategic integration of human resource practices into the management and development of employees through practices such as: compensation, evaluation, recruitment, lay-offs and reward systems above the traditional notion of personnel management.

Over the years, researchers have suggested many management practices which have the potential to improve and sustain organizational performance involving employee selection based on their abilities, behavior, and necessary technical skills required by the employer (Ahmad & Schroeder, 2003). Firms are increasingly considering the adoption of new work practices such as: including work teams, flexible job assignments, employment security, training in multiple jobs and extensive reliance on incentive pay which produce higher levels of productivity than do the "traditional" approaches which involve strict work rules and hourly pay with close supervision (Ichniowski et al. 1995). Moreover, Schuler & MacMillan (1984) mention various practices as highly impactful to a firm's profitability, employee turnover, production quality and costs. According to them, the most important HRMP for a firm are:

- Human resource planning
- Staffing, including recruitment, selection and socialization
- Appraising
- Compensation
- Training and development

- Union-management relationships

They state that extensive employee training and performance-contingent incentive compensation are widely believed to improve the performance of organizations, which is supported by a developing body of research that has reported positive associations between firm-level measures of HRM systems and organizational performance. Likewise, Pfeffer (1998) proposes seven HRM practices which can enhance organizational performance, including (1) employment security; (2) selective hiring of new personnel; (3) self-managed teams; (4) high compensation contingent on organizational performance; (5) extensive training; (6) reduced status distinctions and barriers, including dress, language, office arrangements and wage differences across levels; and (7) extensive sharing of financial and performance information throughout the organization (Ahmad & Schroeder, 2003). Among other HRM practices, Pfeffer (1998) emphasizes the importance of employment security, recruitment, and compensation. He indicates the benefits deriving from a firm offering employment security for its' employees which increase workers' voluntary contribution of knowledge in the firm and their increased efforts to enhance productivity. Furthermore, employment security decreases the likelihood that the firm will need to pay again for job selecting, training and development of their work force. The author believes that employment security is fundamental to the implementation of most other high-performance management practices such as selective hiring, extensive training, information sharing and delegation. Companies will not invest their resources in careful screening and training of new people if those people are not expected to be with the firm long enough for it to recoup these investments.

Organizations that are focused on obtaining profits through people will expend the effort needed to ensure that they recruit the right people in the first place. The organization needs to be clear about what are the most critical skills and attributes needed in its applicant pool. The skills and abilities hired need to be carefully considered and consistent with the job requirements and the organization's approach to its market. Consequently, organizations should screen primarily on important attributes which are difficult to change through training. The author argues that it is much more cost-effective to select on such important attributes which are difficult or impossible to change. Contingent compensation also figures importantly in most high-performance work systems. Such compensation can take several different forms, including gain sharing, profit sharing, stock ownership, pay for skill, or various forms of individual or team incentives.

## 2.2 Human resource management practices in SMEs

Considering the fact that SMEs are of great significance to national economies, this study focuses on HR management practices which are currently being used or can be used by SMEs in order to improve their efficiency and therefore impact their ultimate performance. Small and medium enterprises are considered as the main pillar of economic growth for a country. These enterprises play a vital role in the fast development of worlds' economies. They manage to ensure their survival and stability in the market due to some of their associated characteristics. For example, they are well known for their ability to adapt to market changes and their high tendency for innovations. Bahr et al., (2011) agree that we should consider the key role that the business environment where these enterprises operate play. They suggest that this environment is constantly changing and therefore it generates a high level of uncertainty in the market. Moreover, they emphasize that the business environment obligates enterprises, especially small and medium enterprises, to be more innovative and review or modify their business practices. Bercu (2012) also agrees to the beforementioned argument by emphasizing that the economic instability of the last few decades and the aggressive competition between SMEs has pushed companies to re-think their managerial practices between their organizational structures. She also indicates that the application of managerial practices should be considered as a source of business differentiation for SMEs. The internationalization of economy, the frequent and uncertain changes, the greater competition among firms, the need for continuous innovations, and the growing use of information

technologies force companies to face the challenge of improving their competitiveness. These difficulties are greater for small and medium enterprises (SMEs) because their economies of scale and their resources are less than those of large firms. However, what compensates for these weaknesses is the fact that SMEs may enjoy greater flexibility because of the simplicity of their internal organization, being faster at adapting and responding to changes. This new situation reveals the need to suggest or find more efficient management processes so that SMEs can apply strategies that allow them to achieve a better performance. There is an increasing number of studies focusing on the main competitive factors of SMEs. The literature on this field shows that intangible factors such as structure and organizational change, human resource management, innovation, and technological resources, among others, are elements that clearly contribute to the SMEs' competitiveness and success (Mulolli et al., 2015); (Sanchez & Sanchez- Marin, 2005).

However, according to Zakaria (2011), it should be noted that most studies on human resource practices are discussed in the large organization context and are less covered in small organizations. Perhaps this occurs due to the nature of SMEs which is characterized by increased informality. SMEs follow informal practices of management, where the formal structures of communication and control do not exist. Moreover, the owners and managers of SMEs perceive formal HR management as a road leading to bureaucracy and ignore the application of formal HRM due to SMEs' lack of necessary financial resources. In most cases, SMEs do not have an HR department while decisions related to this field are usually taken by the owner or general manager of the firm (Fink et al., 2009); (Mulolli et al., 2015). SMEs prefer informal recruitment sources also because they are cheaper. This is demonstrated by a research compiled from a survey on UK small firms. Kotey & Slade (2005) find that recruiting in these firms is based mainly on informal channels and networks which are grounded on previous knowledge of the individual by the owner, firm management, or trusted employees. The report compiled by Hayton (2015) concludes that SMEs generally demonstrate a lower tendency to use the formal strategies of management such as: including the employees in decision making processes, training the staff, and applying variable pay. The author confirms that there are many SMEs which do not apply the best managerial practices. The application and development of managerial practices which increase the performance levels of the firms should be considered as preferable for all SMEs regardless of their size or operating sector.

### 2.3 The economic environment in South - Eastern Europe

The region of South Eastern Europe in this study refers to the following countries: Albania, Bosnia and Herzegovina (BH), Bulgaria, Croatia, North Macedonia, Romania, Serbia, Montenegro and Kosovo. On an economical perspective, these countries are recognized as transition economies. The economic consequences of transition were particularly severe for the countries of SEE. For the majority of the transition period, there has been a reluctance on the part of governments to make a firm commitment to macroeconomic stabilization and structural reform. The process of disintegration of the former Socialist Federal Republic (SFR) of Yugoslavia and the ensuing conflicts, initially in Croatia and BH, and latterly in Kosovo, had a major destabilizing effect on the region and constituted an important reason for slow economic development (Papazoglou, 2005).

The role of small and medium sized enterprises has become increasingly vital for transition economies (TEs) because of their ability to respond to the systematic shock rapidly and their potential to generate jobs. The systematic change in transition economies opened opportunities for different types of entrepreneurs to enter the market. In the beginning of transition there were the so-called "low-level" entrepreneurs who flooded the market by offering the customers those goods and services which were in short supply – often in retail trade. But the later stages of transition witnessed the so-called "high-level" or Schumpeterian entrepreneurs who were more than simple traders and aimed to engage in long term economic activity (Hashi & Krasniqi, 2010).

This adaptability of SMEs has been particularly important for the South Eastern Europe region's economy. Surely, there exist notable differences between the countries regarding their levels of economic development.

Unlike firms operating in developed countries, private SMEs in transition economies are operating under weak market institutions and infrastructures. Moreover, owners of these nascent SMEs may not be much familiar with or accustomed to the formal HR systems that have been used in developed countries. Their HR management systems, arguably, may be vastly different from those in developed countries. Thus, even though SMEs play an especially important role in economic development and job creation in transition economies, we know truly little about how they manage HR practices (Nguyen & Bryant, 2004). According to World Bank (2016; 2019), robust economic growth and labor market reforms in SEE have continued to support job creation, especially in the private sector. Recent labor market reforms in Serbia (2014) and BH (2015) have started to generate dividends. Annual employment growth of 4.7 percent in Serbia, half of it in the formal sector. In Albania, formalization efforts have added to the economic recovery, leading to a 6.7 percent growth in employment, mainly in services and manufacturing. SEE regional unemployment remains high, averaging almost 25 percent and ranging from 17 percent of the labor force in Albania to about 33 percent in Kosovo; more than 66 percent of those unemployed have been jobless for prolonged periods. In 2019, the percentage of SMEs was the highest in Kosovo (81.0%) and the lowest in Romania (52.7%). While the highest percentage of SME contribution to employment in the region was in Albania and Bosnia and Herzegovina (80.3%). A common tendency of SMEs in the region is to operate mainly in the distributive trade and services sectors.

Table 1: Figures on South Eastern Europe countries' economy and SME sectorial distribution in 2019

SEE countries	Percentage of SMEs	SME contribution to employment	Total share of SMEs
1. Albania	68.3%	80.3%	99.8%
2. Bosnia & Herzegovina	68.3%	80.3%	99.7%
3. Bulgaria	65.3%	75.7%	99.8%
4. Croatia	59.4%	68.9%	99.7%
5. Romania	52.7%	65.8%	99.7%
6. Serbia	55.6%	66.3%	99.8%
7. Montenegro	69.5%	80.1%	99.8%
8. North Macedonia	63.4%	74.2%	99.7%
9. Kosovo	81.0%	76.2%	99.9%

Source: (European Commission, 2019)

Table 2: SME sectorial distribution in South - Eastern European countries:

Share of SMEs by sectors, 2017 /2018 estimates									
	Albania	Bosnia & Herzegovina	Bulgaria	Croatia	Romania	Serbia	Montenegro	North Macedonia	Kosovo
Non-financial business sector									
Manufacturing	12.6%	16.3%	9.0%	13.1%	10.2%	15.5%	12.1%	13.3%	12.5%
Construction	5.7%	7.3%	6.1%	12.8%	10.7%	7.2%	16.6%	8.1%	7.0%
Distributive trade	33.3%	33.6%	42.1%	23.3%	37.1%	27.2%	50.6%	40.4%	44.1%

Services	40.9%	26,2%	42.0%	49.4%	40.9%	28.1%	4.5%	24.3%	27.1%
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Source: (OECD, 2019)

## 2.4 Human resource management practices applied in SMEs

Most HRM theories and literature are focused on HRM studies in large organizations whilst the application of HRMP in SMEs is overlooked (Zakaria, 2011), (Cassell et al., 2002), (Fink, et al. 2009). According to Mulolli et al. (2015), SMEs which apply formal HR practices display greater overall performance in comparison to the ones which do not apply them. They state that the HRM practices mostly beneficial to SMEs are (1) selection and formal recruiting; (2) providing trainings for employees and (3) implementing a formal evaluation system of performance. As a result, the practice of HRM in SMEs consists of a mixture of non-structured training, compensation, recruiting and selection of employees. Yet, the authors indicate that the most prevalent practice of HRM in SMEs is recruiting and selection of new employees. The process of recruiting in SMEs includes structured interviews as well as testing and comparing the candidates' skills and abilities. This process is usually structured in three simple steps:

- The employee describes the new vacancy and place of work
- The employee states the employed candidate's tasks, duties, and responsibilities on the job
- Potential candidates are usually informed about the new vacancy through word-of-mouth

Other researchers report that in SMEs, the one-to-one selection interviews emphasize "fitting in" while little attention to paper qualification or previous work record is given. "Good" potential employees are not selected because they may be perceived as a threat to the valued independence of the owner-manager. Whilst "fitting in" would continue to be emphasized as a selection criterion as firms grow, attention will also be given to skills and abilities of candidates. Owner-managers prefer to employ the few managers required from family and friends. This difference is expected to diminish with further growth, as these familiar sources are no longer able to cater for the specialist skills required (Kotey & Slade, 2005). An SME does not require from new workers to be professionals when they begin their career in this organization. Instead, they educate people that seem to have the potential to grow and develop. They are happy to recruit young people as interns or recruit someone they know from previous contacts who is seeking their first or second permanent job. The newcomers start with smaller projects and then continue to bigger ones. Although informal recruitment methods are typical for small companies, some recent studies show that as a firm grows formality brings better results in finding people with the right attitude (Fink et al., 2009). It is not clear whether small firms recruit those individuals that have been (informally) assessed through the selection process as not needing additional training. Owner-managers may be more likely to employ individuals who are able to perform effectively and quickly with minimal induction training or additional skills development needs (hence reducing costs). Therefore, the assessment of current skill levels is likely to be crucially important (Stewart & Beaver, 2004). Zakaria (2011) defines employee training and development as activities which are planned to assist the learning related to job knowledge, skills and employee behaviors. In fact, training and development are recognized as important HRM issues in small firms but in terms of providing formal training, it is still being overlooked by them. This is because most employers often underestimate the benefit and cost of training to small firms is not worthwhile. Mulolli et al. (2015) indicate that SMEs provide trainings for their employees only when they need to provide a solution for a potential problem. This means that trainings are not generally offered if there is not a concrete necessity for them. Moreover, the trainings offered are usually informal and short-term which ensures that the firm does not generate excess costs. Training in SMEs has been described as informal and on-the-job and it is often perceived as an unaffordable luxury involving. For micro firms, training operational staff predominantly by watching and correcting their performance on the job is justified on cost grounds (Kotey & Slade, 2005).

A recent study conducted by Fink et al. (2009) for the American Society for Training and Development concluded that there is evidence of a direct relationship between how much a firm spends on employee training and the percentage of increase in organizational performance. It is evident that organizations may be rewarded financially for investing in their employees through increased profits and low employee turnover. Yet small firms are not training their employees. The author identifies reasons why owners and managers tend not to train and develop their employees. These include: (a) knowing how to give employees the training they need, (b) not knowing what materials are relevant to necessitate proper training, (c) not knowing how to measure the effectiveness of training and (d) not knowing how to encourage employees to use the new skills learned or evaluating.

It is crucial to decide on how employees are being paid; it can attract talented employees or bring down a motivation of existing employees. Small firms tend to practice informal system of compensation or reward such as recognition and reinforcement, pay increment, job security et cetera (Zakaria, 2011). According to the findings of the survey done on UK SMEs, the least used HR practices are those related to employee rewards. Those used a little or not at all by over 50% of the sample are non-monetary benefits (67%) and incentive schemes (58%). While the most successful HRMP used in the SMEs in the sample is appraisal (51%) as well as recruitment and selection procedures (50%). Fink et al. (2009) and Mulolli et al. (2015) argue that SMEs often apply informal employee compensation systems. Authors explain this through emphasizing that owner-managers usually lack the skills necessary to carry out effective performance reviews and may perceive formal performance appraisal systems as time-consuming. In small firms, performance appraisal is informal and continuous. To effectively control performance, owner-managers need to shift emphasis from operational staff to middle managers. This means they need to pay greater attention to training, development, and performance appraisal of managers to ensure that managers develop the skills and abilities necessary to perform their responsibilities (Kotey & Slade, 2005).

## 2.5 Benefits from HRMP application in SMEs

The resource-based theory stresses the importance of the internal resources and capabilities of the firm in the context of the competitive environment. The firms that devote their internal forces to exploit the opportunities of the environment and to neutralize threats, while avoiding weak points, are more liable to obtain competitive advantages than those that do not do the same. The competitiveness of SMEs is based on internal elements supported by resources and capabilities difficult to imitate such as HRM. Sanchez & Sanchez-Marin (2005) and Zakaria (2011) emphasize that the adoption of HRMP in small and medium enterprises enables them to attract, retain and motivate employees to work towards the enhancement of organizational performance. Hence, to ensure the sustainability of country's economic growth, SMEs should acknowledge the factors that may influence their performance. Inter alia, benefits derived from using such practices include:

- (1) greater profitability for the firm
- (2) lower employee turnover
- (3) higher product quality
- (4) lower production costs. (Schuler & MacMillan, 1984)

On the other hand, Bryson & Forth (2018) mention two counterarguments that justify the SMEs not applying the beforementioned practices. The first counterargument states that the non-adoption of managerial practices should be attributed to the lack of owner knowledge on the benefits associated with the more formal managerial practices. The second counterargument emphasizes the impact of the specific nature of some SMEs which may limit or prohibit the application of such practices. Likewise, Sanchez & Sanchez-Marin,

(2005) emphasize that SMEs generally have less information about their environment than large firms, which may result in less capability for strategic responses to such changes; and secondly, the characteristics of the country where they operate may influence their management practices.

The role and importance of formal and informal HR practices is growing in SMEs because it is essential to keep employees satisfied with their work. These enterprises need to compete with larger organizations for competent workers. Moreover, there is considerable debate in the literature about how SMEs stand in relation to other organizations. The SME is often part of a supply chain and therefore considerably dependent on others within that supply chain. A large customer may demand that the SME meets certain criteria for HR standards. Therefore, the adoption of new practices can be largely externally imposed (Cassell et al. 2002). Human resource management is a combination of both internal and external factors and there is no single practice or model that would fit all small companies because they operate in an overly complex and heterogeneous world. Nevertheless, the better a company mixes and matches a set of practices and work values to fit its context the better the employees will perform (Fink et al. 2009).

### 3. Methodology

The purpose of this study is to assess whether a statistical correlation between the application of human resource management practices and SME performance exists. To test the relationship between these two variables, data is used from the empirical research conducted with Kosovar SMEs. The study tries to provide a picture of the current situation regarding this issue in Kosovo.

Data is provided for several issues such as: company size, location, performance, number of employees, sector of operation. Also, the firms were questioned regarding the implementation of human resource management practices. Questions were focused on the employment of HR specialists and development of the HR department, target setting, performance evaluation and training provision. Furthermore, the firms were questioned whether they intend to develop an HR department in the near future as well as their reasons for not creating such a department until now.

#### 3.1 The questionnaire structure

This is a quantitative research and the instrument used for the gathering of the data is the questionnaire. A questionnaire has been created and sent by email to the owners of the SMEs participating in the survey. The data have been gathered for two weeks during the month of January 2021. A total number of 25 questionnaires have been sent while 18 completed questionnaires have been received. This means that the response rate has been 72%. An obstacle during the process of gathering the data has been reaching out to medium-sized companies regarding the questionnaire. The response rate of this type of enterprises has been lower in comparison to that of smaller enterprises. Consequently, the study includes data from only two middle-sized companies. However, it should be noted that most of the enterprises in the country employ less than 10 people. Regarding the issue of low presentation of middle-sized companies in the sample, the results from the sample should not deviate considerably from the current situation in the population.

The method chosen to gather the data is through a non-probability sample - the quota sampling. This indicates that the results of the survey cannot be generalised to the larger population since the number of the participating firms is rather small. In the questionnaire, closed questions have been used in order to retrieve numerical results as well as specific answers which benefit this study. The questionnaire used for this research can be found in

## Annex 1.

### 3.2 The participants of the survey

The participants in the survey were 18 SMEs operating in different locations in Kosovo. These SMEs are engaged in different industries, operating in various locations within the country. However, most of the participating firms were located in the Dukagjini Plain. The tables below provide demographical information regarding the respondents.

Table 3: Location of the companies

Business location	Number of respondents	Percentage of number of respondents
Gjakova	1	6%
Gjilan	3	17%
Prishtina	1	6%
Malisheva	1	6%
Prizren	9	50%
Rahovec	3	17%

Half of the participating SMEs in the survey operate in the municipality of Prizren, followed by 17% in Gjilan and Rahovec respectively. There is one representative SME in the sample for each of the following regions: Gjakova, Prishtina and Malisheva.

Table 4: Size of the companies

Company size	Number of respondents	Percentage of number of respondents
Micro	10	56%
Small	6	33%
Medium	2	11%

A slight majority of the participating SMEs in the survey (56%) include micro enterprises which employ 1 to 9 employees. This size of enterprises represents the majority of the private firms in the country. 33% of the respondents are small-sized enterprises which employ 10 to 49 employees. Lastly, only 2 enterprises are medium-sized and employ 49 to 249 employees.

Table 5: Operation sector of the companies

Sector	Number of respondents	Percentage of number of respondents
Construction	2	11%
Gastronomy	3	17%
Healthcare & education	2	11%
Manufacturing	7	39%
Retail and trade	1	6%
Sales	1	6%

Services	2	11%
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The manufacturing sector is the dominant sector of operation according to the respondents (39%). More precisely, these businesses operate in the food, metal and clothing manufacturing sectors. 17% of the respondents operate in the gastronomy sector. Only two SMEs operate in the services sector offering transportation services and event decorating services. Another two companies operate in the construction sector followed by one company operating in the sales sector as well as retail and trade.

Table 6: Year of foundation of the companies

Period of foundation	Number of respondents	Percentage of respondents
2015 - 2020	6	33%
2009 - 2014	0	0%
2003 - 2008	4	22%
1997 - 2002	4	22%
1997 or earlier	4	22%

Most of the participating SMEs have been founded during the period of 2015 – 2020 (6), while 4 SMEs have been founded during each of the following time series: 2003 – 2008; 1997 – 2002; and 1997 or earlier.

### 3.3 Data analysis

After the data was gathered, MS Excel was used to analyse the data and interpret them. The answers received from respondents which present categorical variables were transformed into dummy variables. Descriptive statistics were used to generate results while Pearson’s R was used to assess the correlation between different variables. Finally, multivariate regression analysis has been used when generating results regarding variable prediction.

### 3.4 Research limitations

This quantitative research gathers data from 18 SMEs in the country. A larger number of participating firms would be more beneficial to the study as representative data cannot be derived from a sample with a small size. The sample used is not a probability sample which means that the findings do not necessarily correlate to the actual situation in the population. However, they represent a frame of the current situation regarding this issue in Kosovo. On the other hand, the answers gathered from survey respondents might be influenced by subjectivity and do not directly implicate presumptions which can be generalized to the entire SME population in the country.

## 4. Results analysis and discussion

### 4.1 The SME context in Kosovo

In Kosovo, the categorisation of SMEs is based on the number of employees. The table below shows the definition of micro, small and medium-sized enterprises in Kosovo.

Table 6: Definition of micro, small and medium-sized enterprises in Kosovo

SME classification by size	EU definition	Kosovo definition
Micro	<10 employees, turnover or balance sheet total $\leq$ EUR 2 m	< 10 employees
Small	<50 employees, turnover or balance sheet total $\leq$ EUR 10 m	< 50 employees
Medium	<250, turnover $\leq$ EUR 50 m or balance sheet total $\leq$ EUR 43 m	< 250 employees

Source: (OECD, 2019)

Services are the largest sector in the economy, with a share of value added of 54% of GDP over 2009-17. Industry is small by regional standards, at 16.8% of GDP, of which manufacturing accounts for about 10%. The agricultural sector remains relatively large, at 11% of GDP. The biggest value creation (47.5%) comes from medium-sized enterprises, which represent less than 1% of the business population. In Kosovo, SMEs mostly operate in the distributive trade sector (44.1%), while 12.5% operate in the manufacturing sector, but with a low level of integration into the global value chain (EC, 2018); 7% in the construction sector, just 2.8% in the agricultural sector, and 0.4% in the mining and quarrying sectors (OECD, 2019).

### 4.2 Obstacles to doing business

When asked about the most crucial factors which refrain SMEs of their industry to operating successfully, the participants ranked the competition from the practices of the informal sector as the main obstacle (66.7%), followed by high taxes for businesses (61.1%), and the inadequately skilled labour force (50%). Furthermore, they ranked factors such as: difficult access to finance, un-efficient tax administration and electricity shortages as less important. Similarly, a study conducted by Krešić, et al. (2017) for the European Bank for Reconstruction and Development on 1800 Western Balkan businesses found that businesses in this region were concerned principally about unfair competition from the informal sector. While other significant obstacles included access to finance, tax rates and getting electricity. However, the study finds that the costs of different obstacles vary according to firm characteristics. Manufacturing firms tend to find that obstacles related to access to finance, competition from the informal sector, tax rates and tax administration have a more severe impact on their performance than firms in services. Another study based on data from 600 Kosovar businesses found that the main barriers to doing businesses in Kosovo was the “small internal market”. This factor was followed by “tax rates” and “fiscal evasion and informality”. The barrier of “skills and education of employees” was ranked as the 19<sup>th</sup> on the list of barriers which indicates that it is not considered as serious by the surveyed businesses. This finding suggest that Kosovar businesses are still in the level where basic skills are required for employment (Riinvest Institute, 2017). The unjust competition deriving from the informal sector remains a challenge for SMEs in Kosovo. According to the European Council’s estimates, the informal economy in the country is estimated to constitute 31% of the GDP.

Widespread informality leads to unfair competition, hindering access to finance and the ability of registered businesses to grow and innovate. Moreover, it reduces wages and purchasing power, shrinks the economy's tax base and ultimately the state budget (OECD, 2019).

#### 4.3 Perceived impact of HRMP on SME performance

The participants were questioned whether they believe that the formalization of HRMP will increase their businesses' performance and 83.3% of them responded positive. Only two of them emphasized that the application of such practices would make no difference to the firm's profit. 50% of the participants argued that the main obstacle to the adoption of HRMP in SMEs is the high cost of adoption. Two respondents added that managers and owners of SMEs are often unaware of the role and importance of these practices.

On the other hand, the surveyed SMEs declared to have had a low staff turnover of less than 5% during the last year of operation. This result could derive from the fact that smaller enterprises tend to employ workers with permanent rather than temporary job contracts. Moreover, SMEs might not be equipped with knowledge on employee performance measurement systems. As a result, they seldom lay off workers due to low productivity.

The participants were then questioned about the firm growth percentage during the last five years of operation. The responses on this question have been used as the main source of comparison with HRMP application to determine if firm growth was impacted by the application of any practice of HR. 88.9% of respondents answered that their enterprise has experienced growth during the last five years of operation. Only one participant responded that they have not experienced growth during this period, instead, they have remained at a constant growth level during the period. 41.2% of the firms have experienced growth of 10 – 20%, while 35.3% of them have experienced a 20% growth or higher. Only 23.5% experienced a growth rate of 5 – 10% during the period.

#### 4.4 Recruitment and selection process

When asked about whether the firms employ a human resource specialist who is responsible for the formal recruitment process of new employees, only 22.2% answered "Yes". This finding suggests that the process of recruitment in Kosovo tends to be rather informal in 77.8% of SMEs. Moreover, it is in accordance with the suggestion of Mulolli, et al., (2015) which emphasizes that informal practices of management resources are more developed in small and medium enterprises than big enterprises. They reveal that management of human resources of SME tends to be less structured and planned in comparison to larger firms that apply formal practices. Authors add that SMEs applying the formal management of human resources have a better performance than SMEs which do not.

In the cases where a human resource specialist was employed, the firm was more attentive to the skill set of potential employees. 3 out of 4 firms who employ an HR specialist responded that they search for highly skilled candidates during the selection process. Other SMEs which were less focused in formal HR management responded that they require basic knowledge and elementary skills from new employees. However, the firms which employ an HR specialist proclaimed a growth rate of 10% to 20% or higher, during the last five years of operation. A study conducted in Macedonia, finds the role of the HR specialist as quite important to for SMEs. Abduli (2013) states that the professional role of an HR specialist consists helping managers to identify management practices that are consistent with human nature in order to achieve their best results. Also, it enables harmonization of individual goals with the goals of the organization. A relatively small number of SMEs declared to have an HR department established within the last five years of operation (27.7%).

However, a larger amount of them (66.7%) were interested in developing this department in the near future, as their firm grows. Only three participants responded negatively when asked about their interest in establishing an HR department in the future. 2 out of the three firms operate in the construction sector while the other one is engaged in manufacturing. A tendency to lack formalisation of HR practices has been observed to be more evident in SMEs operating in the construction sector, followed by the ones in manufacturing, despite their larger size or greater longevity in comparison to other SMEs. Regarding the person responsible for recruitment in the surveyed SMEs, 55.6% responded that the owner of the firm is responsible for recruitment or the general manager (33.3%). Two firms provided different responses by mentioning other persons responsible for recruitment. One of them mentioned the chief executive officer and chief of operations as responsible for recruiting while the other mentioned the engagement of an outside company which offer services in HR management. Mulolli, et al. (2015) find that recruitment and selection of new employees are the most used as well as the most useful human practices to be applied in SMEs. They state that in the case of SMEs, the selection process of candidates includes structured interviews and formal tests.

Findings suggest that formal tests during the selection process are not widely used by SMEs in Kosovo since 61.1% of respondents declared to not use formal tests when recruiting new employees while 83.3% of them responded to use interviews prior to employment of new employees. The formal tests were mainly used by firms operating in industries which require specific knowledge of employees such as: clothes manufacturing, non-formal education, sales, and pharmaceuticals. On the other hand, interviews are used in 15 out of 18 surveyed SMEs. In the cases when interviews were not applicable prior to recruitment, the firms were either not interested in assessing the employee skills through tests and interview, or the firms chose to use tests instead of interviews (the case in the pharmaceutical firm). Furthermore, the SMEs were questioned on the most important factors which impact the selection process in firms of their size and industry. 44.4% of respondents agreed that the ability of potential employees to adapt to the firm's culture is the most crucial factor when selecting new employees. 38.9% declared that the level of skills and abilities of new employees is the determining factor during the selection process. Only 16.7% noted that the referral of potential employees from a friend, colleague or current trusted employee is the main factor to recruitment.

#### 4.5 Training and development

According to the findings of this survey, training of employees is widely applied in Kosovar SMEs. This could be attributed to the fact that 43.3% of SME managers are happy to some extent with their employees' skills and knowledge. 72.2% of SMEs declared to provide trainings for new employees which are often conducted by current employees who were previously employed in the firm (43.8%). Participants responded that the owner or the general manager is responsible for trainings of employees in the cases when the current employees are not. Only one participant answered that the HR specialist conducts the trainings of employees. A slightly lower percentage of SMEs offer trainings for employees who were not frequently employed in the firm (66.7%). It should be noted that the firms who were observed to not offer any form of training, in most cases operate in the construction and manufacturing sectors. In 75% of cases, the firms not offering trainings are micro-sized with only one of them being classified as a medium-sized enterprise. Trainings are provided on a periodic basis in SMEs (53.3%) or they are offered when they are considered to be necessary for the employees (40%). Trainings based on necessity are mostly offered in the manufacturing sector followed by retail and trade. 46.7% of SMEs answered that the training period lasts for 1 to 3 days followed by 20% who responded that the training lasts for 3 to 7 days or more than 14 days, respectively. Furthermore, Mulolli et al. (2015) suggest that the training process in SMEs is usually informal, un-planned and is aimed for a short period of time due to the lack of financial resources. However, the authors emphasize that the potential of SMEs is effectively achieved only if abilities and competences of employees are developed appropriately.

#### 4.6 Performance measurement and compensation systems

A large percentage of respondents (70.6%) declared to offer different compensations to employees who demonstrate various performance levels. Consequently, they do not offer uniform wages to their workers. Moreover, one respondent declared that the workers in their business are compensated for each extra hour of work. The workers are also offered tips on certain holidays such as: Women's Day, Saint of Valentine etc. To measure their employees' performance, 72.2% of SMEs use targets. This form of performance measurement was observed to not be applied in the construction and gastronomy sectors in this survey. In the cases when targets were applied, 35.7% of the respondents answered that the variable compensations differed either for less than 10% or more than 20% compared to the fixed salary.

Smaller enterprises are usually considerably focused on reducing operational costs. Therefore, they often refuse to offer attractive compensation packages for qualified staff. However, it should be noted that the opportunity cost of losing a qualified employee, the recruitment of a new employee, necessary training according to job requirements, loss of productivity and expertise, administrative costs – are the costs included. According to a study conducted by Hay Group, the replacement of a worker costs the company 6 salaries for an ordinary employee and 18 salaries for a profession (Abduli, 2013).

#### 4.7 Hypothesis testing and statistical calculations

The null hypotheses which were tested in this research are:

**H0<sub>1</sub>:** A positive correlation exists between the two variables: (1) formal recruitment process and (2) increased firm performance. Formal recruitment process in this context refers to the usage of formal tests and interviews during the process of recruitment.

**H0<sub>2</sub>:** A positive correlation exists between the two variables: (1) providing trainings for employees and (2) increased firm performance.

**H0<sub>3</sub>:** A positive correlation exists between the two variables: (1) the application of compensation systems based on performance and (2) increased firm performance.

*The first null hypothesis of this research suggests that SMEs which apply formal tests and conduct interviews of potential candidates prior to recruitment are more profitable in the long term.*

To test the correlation between these two variables, Pearson's R or the correlation coefficient has been used. Considering the value obtained (.04), the correlation between the variables is either inexistent or statistically insignificant. Moreover, the p-value of .86 means that there is no sufficient evidence to reject the null hypothesis. Therefore, the correlation is statistically insignificant.

$$r = .04 \quad P - \text{value} = .86 \\ P - \text{value} > .05 (\alpha = .05)$$

Similar results are obtained regarding the correlation between firm performance and conducting formal evaluations of candidates prior to recruitment. The correlation between these two variables is quite weak. However, it is slightly greater than the correlation between firm performance and the use of interviews. This means that there is a slightly greater opportunity that the SMEs which conduct formal tests when recruiting will be able to generate more revenue in comparison to the

firms which use interviews only. In conclusion, the p-value of .44 indicates that the null hypothesis cannot be rejected, and the correlation is statistically insignificant.

$$r = .19 \quad P - \text{value} = .44$$

$$P - \text{value} > .05 (\alpha = .05)$$

*The second null hypothesis of this research suggests that SMEs which provide trainings for their new and current employees are more profitable in the long term.*

The Pearson’s R of .14 indicates that the correlation between firm performance and trainings is insignificant. While the P – value of .58 suggests that the null hypothesis should not be rejected due to the lack of evidence to do so. However, the difference between the two variables is statistically insignificant as well.

$$r = .14 \quad P - \text{value} = .58$$

$$P - \text{value} > .05 (\alpha = .05)$$

*The third null hypothesis of the research indicates that SMEs which use pay for performance systems are more profitable in the long term.*

The strength of the correlation between these two variables is real and significant (.48). This finding indicates that the increased firm performance is considerably related to the application of pay for performance systems in SMEs.

$$r = .48 \quad P - \text{value} = .0502$$

$$P - \text{value} > .05 (\alpha = .05)$$

The p-value is remarkably close to the significance level of 0.05 or 5%. However, due to the slight overlap of the significance level of .05, the null hypothesis cannot be rejected.

The table below signifies the predicted growth percentage of the company with respect to the size of the company, skill level of employees, HR specialists employed, and trainings offered to employees. The simple linear regression equation and the ordinary least squares model was used to generate the required values. The variables of skill level, HR specialists employed and trainings, have been transformed into dummy variables where 0 signals the absence of the variable while 1 signifies the presence of it. There are 17 observations instead of 18 due to the lack of complete data received from one respondent regarding the four variables before-mentioned.

Table 7: Predicted growth percentage of the SMEs

Observation	Predicted growth (%)	Current growth (%)	Residuals
1	18.58543654	15	-3.585436539
2	26.06163463	15	-11.06163463
3	40.99162049	40	-0.991620489
4	20.03829658	7	-13.03829658
5	20.03829658	40	19.96170342
6	30.30345957	15	-15.30345957

7	26.06163463	40	13.93836537
8	8.885110253	7	-1.885110253
9	15.37347371	40	24.62652629
10	15.37347371	7	-8.373473708
11	33.5154224	40	6.484577602
12	15.37347371	15	-0.373473708
13	20.03829658	15	-5.038296582
14	14.88603798	15	0.113962022
15	30.30345957	40	9.696540433
16	18.58543654	7	-11.58543654
17	18.58543654	15	-3.585436539

*Source: Author's calculations*

#### 4.8 Summary of findings from the survey

The participants in the research were asked about the application of several human resource management practices in their firms. Of particular interest was (1) the recruitment and selection procedure of new employees; (2) training and development of new and existing employees; and (3) performance measurement and compensation systems. In general, the findings of this survey suggest that the questioned SMEs apply informal HR management practices. However, they indicate that SMEs have changed in terms of being more conscious during the selection process. They tend to focus on the potential candidate's ability to adapt with the firm's culture as well as their skills and abilities in comparison to the referral of potential candidates by friends, colleagues or current, trusted employees. Secondly, SMEs have shown great interest in training their employees, especially the newly employed candidates. This finding suggests that SMEs are interested in developing their staff by offering trainings, which are usually offered on a periodic manner. Finally, a considerable number of SMEs use different compensations for employees based on their level of performance shown at work. Differences between SMEs have been observed depending on the sector they operate, the number of workers they employ or longevity of operation in the market.

The findings of this research cannot be generalised into the larger population, but they serve as a frame from which we can understand the way SMEs operate in the country in terms of HR management. In conclusion, data shows that despite their increasing size of the enterprise in terms of employees, the firms have not been focused on the implementation of formal human resources management practices.

### 5. Conclusions and recommendations

The main purpose of this study was to analyse the correlation between the application of HRMP and SME performance. This empirical research was based on the literature findings which suggest that certain HR practices such as (1) formal recruitment and selection process; (2) training and development for employees and (3) performance measurement and compensation systems can have a positive impact on SMEs' performance. Researchers worldwide believe that there is a lack of studies concerning the application of HRMP in SMEs since this topic has been more explored in the large enterprises' context.

However, I consider that due to the great significance of SMEs to national economies, it is particularly important for SME owners and managers to be aware of HR management practices which have the potential to increase firm productivity.

SMEs are incredibly important for the transitional economies of the South-Eastern Europe, including Albania, Bosnia and Herzegovina, Bulgaria, Croatia, North Macedonia, Montenegro, Romania, Serbia and Kosovo. These enterprises dominate the private business sector in the above-mentioned countries. According to literature findings, the share of total SMEs is slightly higher in Kosovo than in other participating countries in the region. Therefore, this study tends to provide data regarding the SME business climate in Kosovo as well as the use of HRMP by these enterprises in the country. Data gathered from the survey conducted with 18 Kosovar SMEs find that HRMPs are used to some extent by SMEs operating in the country.

The data gathered suggest that there exists little correlation between the application of HRMP and SME performance, which is considered to be insignificant. When assessing the statistical relationship between the use of formal tests and interviews during selection process, a low Pearson's coefficient suggests that there is no appreciable linear correlation between the two variables. Similar results are derived from testing the second null hypotheses which states that the use of trainings increases the firm performance. A difference is observed when testing the third null hypotheses which indicates that there exists a real and significant correlation between the use of pay for performance systems and increased firm performance. However, these two variables can be considered as moderately correlated. After having tested the significance of these correlations, I conclude that none of the three null hypotheses can be rejected. Therefore, a slight correlation has been identified in between the variables of interest. A better and more insightful result would have derived if the sample size were larger, However, these results help in creating a frame of the HRMP application by Kosovar SMEs.

### 5.1 Recruitment and selection process

When questioned about the recruitment and selection process, respondents declared that the individuals responsible for recruitment are the owner of the firm (55.6%) or the general manager (33.3%) which indicates the absence of a formal recruitment process. Moreover, only 22.2% of respondents answered "Yes" when questioned whether the firm employs an HR specialist. This finding also suggests that SMEs do not perceive the role of HR management as vital to their firm's performance. On the other hand, most of the respondents (66.7%) agreed on the development of an HR department in the near future, as the firm grows.

What is more, 16 out of a total of 18 SMEs surveyed have declared that they believe that the formalization of HRMP will increase their business' performance. The most common reasons received regarding the lack of application of such practices included the high cost associated with the implementation of such managerial changes, as well as the small perceived impact of HRMP on firm performance. A tendency to lack formalisation of HR practices has been observed to be more evident in SMEs operating in the construction sector followed by the ones in manufacturing, despite their larger size or greater longevity in comparison to other SMEs.

Respondents were also questioned about the most determining factors during the selection of potential candidates and 44.4% of them agreed that the ability of potential employees to adapt to firm's culture is the most crucial factor. This was followed by the level of skills and abilities that potential candidates display during the selection process. A small percentage of SMEs emphasized the importance of employee referral by friends, colleagues or current trusted employees as the main factor for recruitment. This finding suggests that the recruitment process in Kosovar SMEs is somewhat different in comparison to previous years considering the fact that the importance of employee referral is decreasing. Most SMEs tend to use interviews instead of formal tests during the selection process. However, formal tests are used mainly in industries which require specific knowledge from candidates such as the case in the pharmaceutical firms and non-formal education.

## 5.2 Training and development

Trainings are heavily used by Kosovar SMEs as 72.2% of respondents declared to provide trainings for newly employed candidates. This percentage lowers for 5.5% when respondents are asked about the trainings offered to employees who are not frequently employed in the firm. Respondents emphasized that trainings are often offered in cases when they are needed as well as on a periodic basis. The trainings period usually lasts for 1 to 3 days and in most cases, they are conducted by current employees of the firm. In some rare cases, the owner or general manager of the firm conducts the trainings. It should be noted that the firms who were observed to not offer any form of training, usually operate in the construction and manufacturing sectors. In 75% of cases, the firms not offering trainings are micro-sized.

These findings suggest that trainings are often provided for employees in SMEs. This could be impacted by the fact that SMEs often require basic knowledge from potential candidates, therefore, they are obliged to train them afterwards. Even-though this HR practice seems to be quite used by SMEs, it should be noted that the training process lacks formalization, probably in an attempt to reduce financial costs of the firm.

In conclusion, SMEs perceive employee training to be an important factor to firm's performance. Since SMEs generally offer permanent work contracts, they are quite interested in investing in their employees through trainings. In this way, they increase the skills and abilities of their labour force and at the same time, they are not pressurized by possibility of organizational brain drain. Instead, this form of low-cost trainings offered to employees is beneficial to SMEs.

## 5.3 Performance measurement and compensation systems

In addition to the wide application of trainings, pay for performance systems are also quite used by SMEs (70.6%). Respondents have declared to offer different compensations to employees who demonstrate various performance levels. Consequently, they do not offer uniform wages to their workers. Furthermore, a similar percentage of respondents declared to use targets in order to measure employee performance. This form of performance measurement was observed to not be applied in the construction sector in this survey which suggests that this sector is the least formalized sector where SMEs operate in the country. It should be noted that the opportunity cost of losing a qualified employee, the recruitment of a new employee, necessary training according to job requirements, loss of productivity and expertise, administrative costs are the costs included of the non-application of HRMPs.

## Recommendations

The paragraph below summarizes three recommendations deriving from this study which can be useful to the advancement of SMEs and improvement of their performance.

- 1) First and foremost, SMEs should focus on increasing the use of performance measurement systems which help in assessing their employees'. In case the consequent findings suggest that employee performance is lower than expected, then the SMEs should formalize and adjust their recruitment process in order to attract more qualified candidates.
- 2) Secondly, policymakers should provide continuous trainings for SME managers and owners regarding the impact and application of HRMP in SMEs.
- 3) Other studies conducted on the same topic would be incredibly beneficial to a further completion of this thesis. Researchers should analyse in depth the application of HRMP in specific sectors where

SMEs operate. Consequently, these studies would provide more concrete answers as to which HRMP are more suitable to firms operating in each sector since the non-adoption of HRMP is heavily influenced by the nature of the firm's activity.

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## Annex 1: Questionnaire for the gathering of primary data

Introduction paragraph:

Dear participant,

My name is Fiona Pirana and I am a Double Degree student in the Faculty of Economics at Riinvest College and the Polytechnic University of Marche (UNIVPM). This questionnaire is a part of my master's thesis which analyses the impact of human resource management practices on the performance of SMEs in the South-Eastern Europe. More specifically, the aim of this questionnaire is to gather data on the application of such practices by SMEs operating in Kosovo.

The questionnaire focuses on the adoption of three practices: (1) recruitment and selection; (2) training and development; and (3) performance and compensation systems used by SMEs. The application of human resource management practices is believed by researchers to be highly productive for firms of all sizes, including small and medium enterprises.

Your participation in this questionnaire is highly valuable. The responses you decide to communicate will be used for statistical purposes only and your identity will remain anonymous. The questionnaire completion takes no more than 15 minutes. However, you may choose to terminate the survey at any moment without offering any explanation.

Thank you beforehand for your time and collaboration.

*This section of the questionnaire requires answers to demographical questions regarding your enterprise.*

1. What is the name of your enterprise?

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2. In which sector does the enterprise operate?

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3. When was this enterprise founded?

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4. How many employees are currently enrolled in your enterprise?

a) 0 – 10

- b) 10 – 49
  - c) 49 – 249
5. Could you specify the level of skills required by your company during recruitment of new employees?
- a) Basic
  - b) Intermediate
  - c) Advanced
6. Has your enterprise experienced growth during the last five years?
- a) Yes, we have experienced economic growth during these last five years.
  - b) No, we have remained at a constant growth level during these last five years.
  - c) Other: \_\_\_\_\_
7. If your enterprise has experienced economic growth during the last five years, please specify the growth percentage in the options mentioned below.
- a) 5 – 10%
  - b) 10 – 20%
  - c) 20% or more
8. Which of these factors present the biggest obstacles to doing business for an enterprise in your industry? Please rank the below mentioned options according to their relevance.
- a) The competition from the informal sector
  - b) Getting electricity
  - c) Electricity shortages
  - c) High tax rates
  - d) Un-efficient tax administration by competent authorities
  - e) Inadequately skilled labour force
  - f) Difficult access to finance

*This section of the questionnaire requires answers to questions regarding the management of human resources in your enterprise.*

9. Who is responsible for hiring in your enterprise?
- a) General Manager
  - b) Owner
  - c) HR specialist
  - d) Other: \_\_\_\_\_

10. Does the enterprise have an HR specialist employed?

a) Yes

b) No

c) Other: \_\_\_\_\_

11. If your enterprise does not have an HR department, do you intend to have one in the future?

a) Yes, we intend to create an HR department as the enterprise grows.

b) No, we do not intend to create an HR department in the future.

c) The enterprise currently has an HR department.

d) Other: \_\_\_\_\_

12. If your enterprise has a specific HR department, for how long has this department been established?

a) Less than 1 year

b) 1 – 2 years

c) 2- 5 years

d) 5 years or more

*This section of the questionnaire requires answers to questions regarding trainings for development for the employees.*

13. Does the enterprise offer trainings for new employees?

a) Yes

b) No

14. Does the enterprise offer trainings for existing employees?

a) Yes

b) No

*If both answers to questions number 13 and 14 are “No”, please skip the questions in this section.*

15. On what occasion are trainings for employees offered in your enterprise?

a) Trainings are offered when they are needed

b) Trainings are offered on a periodic manner

c) Other: \_\_\_\_\_

16. Who is responsible to conduct the trainings?

a) The owner of the enterprise

b) The general manager

c) The HR specialist

d) Other employees who have been previously employed in the enterprise

17. How long does the training period usually last?

- a) 1 – 3 days
- b) 3 – 7 days
- c) 7 – 14 days
- d) More than 14 days

18. Are you satisfied with the level of skills and knowledge of your employees?

- a) Yes
- b) No
- c) To some extent

*This section of the questionnaire requires answers to questions regarding the evaluation of employee performance.*

19. Are performance targets used to measure employee performance?

- a) Yes
- b) No

20. If you use performance targets, how much are the variable compensations compared to the fixed salary?

- a) Less than 10%
- b) 10% - 20%
- c) More than 20%

21. Do you offer different compensation for employees based on their performance?

- a) Yes
- b) No
- c) Other: \_\_\_\_\_

*This section of the questionnaire requires answers to questions regarding the selection and recruitment of new employees in your enterprise.*

22. When recruiting new employees, do you use formal tests to evaluate the knowledge and skills of potential employees?

- a) Yes
- b) No

23. When hiring new employees, do you use interviews prior to recruitment?

- a) Yes

b) No

24. What do you think is the most important factor for recruitment in firms of your size?

- a) The level of skills and knowledge of the employee
- b) The ability of the potential employee to adapt to the firm's culture
- c) The potential employee being referred by a reliable friend, business partner or current employee

*This section of the questionnaire requires answers to questions regarding firm performance.*

25. Does your enterprise experience high staff turnover?

- a) Yes
- b) No

26. Could you quantify the sum of the hires and exit of workers in the last year compared to the average employment in the year?

- a) Less than 5%
- b) 5 – 20%
- c) More than 20%

27. Do you believe that the formalisation of human resource practices would increase your enterprise's performance?

- a) Yes
- b) No
- c) The formalisation of human resource practices would make no difference to performance
- c) Other: \_\_\_\_\_

28. What do you think is the most important factor for the non-adoption of human resource practices in SMEs?

- a) The adoption cost of such practices
- b) The irrelevance of the adoption of such practices to the firm's performance or profit
- c) Other: \_\_\_\_\_