

The Republic of Kosovo: Surviving, Sustaining, and Succeeding in the Balkan Peninsula

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ABSTRACT

The Republic of Kosovo is one of the youngest countries in the world, and yet the origin of her people can be traced back to the prehistoric times—it is generally agreed that people of Kosovo are the descendants of Illyrian tribe. Her geographic location is in the heart of Balkan Peninsula in Europe, an area consisting of diverse ethnic groups. Kosovo and her people have survived oppressions and tyrannical rulers in the past. But today, after gaining independence on February 17, 2008, she is facing a survival challenge and hopes to move forward to a sustainable, economic and management development stages. This research addresses the challenges of the Republic of Kosovo, with a management development framework for surviving, sustaining, and succeeding in the Balkan Peninsula.

Albania is a neighboring country which is populated by people whose culture for most part is the same as the majority of Kosovar population—this Kosovar majority is referred to as Kosovar Albanians. Kosovo has over 2.1 million inhabitants, and consists of Albanians 92%, Serbs 5.3%, and other ethnic groups 2.7%; the median age is 26.3 years, and the literacy rate of around 92%. Kosovo is a republic, president, as the head of the country, is elected by the people; whereas the prime minister, as the head of the government, is elected by the assembly (elected legislative body). Kosovo has executive, judicial, and legislative branches.

Prior to independence, Kosovo was under socialist government, which means both production and consumption were controlled. After independence, business development and entrepreneurship were encouraged; In 2008, export accounted for 13% of GDP, while import was 57% of GDP. There are problems for day-to-day running



of businesses, which also include uncertainty of continuous supply of electricity. With constant power outages, and poor infrastructure (education, roads, telecommunication, Internet), it is both a management and leadership challenges for the Republic of Kosovo. This research study explores the ways to ameliorate the problems and provide strategic path for surviving, sustaining, and succeeding in the Balkan Peninsula.

Introduction

This study systematically analyzes the existing condition and structure for the business development framework for the Republic of Kosovo, and also suggests broader and specific recommendations to ameliorate the problems. Business development is not an independent entity - its existence and success heavily depends upon the complex societal relationships. This study therefore, extends further by analyzing country's macro structure in a context of a developing society.

Kosovo is the youngest country in the world with over 2.1 million estimated inhabitants, a population equivalent to the Queens borough of New York City. Located in the heart of the Balkan Peninsula in Europe, she is currently facing global challenges for long-term development. Kosovo has an estimated unemployment rate of 47 percent, and "[...] an estimated 17 percent are extremely poor - i.e., unable to meet basic nutritional needs." (The World Bank, 2010) Additionally, Kosovo is one of the most sequestered countries in Europe. She has undergone shifts in different levels of oppressions and experienced various styles of tyrannies. But today she stands as an independent country recognized by many, debated by some, and rejected by others. Among numerous competitive advantages, she is rich in natural resources. One particular resource is Lignite (a type of coal used for energy production), where according to Kosovo's Independent Commission for Mines and Minerals, Kosovo is a world leader (ranked at #5) in proven resources of this type of coal. Kosovo has a great potential to be successful, especially since her human capital is the youngest in Europe, however she does require strategic development initiatives that this study will attempt to identify and explore.

The methodology of this study is two dimensional. The first dimension is a thorough and holistic country analysis. It is a combination of qualitative analysis based upon personal experiences, primary data gathered from interviews, and secondary data from published sources. This analysis includes elements from the cultural and historical aspects, macroeconomic perspective, business and industry challenges, educational opportunities, human capital development, and infrastructure investment and sustainability. The second dimension is an empirical analysis of leadership practices and behavior in Kosovo. For this part, a quantitative study was conducted to a sample of leaders in Kosovo.

It is difficult to discuss in detail all these elements in this paper (see Cahani & Nathan, May 2011 for detail anlaysis). Therefore, the structure of this paper is categorized into three parts¹: (1) Surviving, relates mainly to political stability and providing basic necessities (e.g., food, shelter, water) of life, and Kosovo's experiences in the past, the present, and how will she endure in the future; (2)Sustaining, the path of business development in building the economy, taking into consideration the macro level, country analysis, and current status; and (3)Succeeding, takes the leadership perspective for the private and public sectors.

Brief Background

Kosovo borders with Albania, Former Yugoslav Republic of Macedonia, Montenegro and Serbia. It is landlocked and has a total of 10,908 square kilometers and has mixed terrains of flat surfaces and high mountains with a range of over 2,500 meters (Ministry of Public Administration, 2008). The climate is continental, with five major cities (see fig.1), where the capital is Pristina (Albanian: Prishtina).

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¹ Kosovo, as a recent independent republic, in our opinion, from a country development perspective, is undergoing Surviving, Sustaining, and Succeeding phase to become a respected and responsible member of today's global economy



Map of Kosovo [MAP]. (2010). Retrieved from: http://www.lib.utexas.edu/maps/cia10/kosovo_sm_2010.gif

Kosovo population is composed of Albanians, who account for 92%, Serbs account for 5.3%, and other ethnic groups accounting for the rest of 2.7%. Consumption in Kosovo is between € 5,000 - € 6,000 per year, with the main income deriving from public sector, followed by private sector, money sent from abroad, agriculture, other house hold business, and minute pension funds. According to IMF, Kosovo's GDP for 2010 is estimated to be around € 4 billion, whereas according to Ministry of Finance of Kosovo the GDP is estimated to be over € 5 billion for the same year. Since 2005, the annual percent change for the real GDP in Kosovo has been positive and ranging between 3.8 % and 5.4 %, and is projected to be at 5.9% for 2011 (International Monetary Fund, October 2010). GDP per capita is estimated to be around € 1760.

Surviving: the Past, the Present and the Future

Before C.E., the area where currently Kosovo resides was known as Dardania. There is substantial archeological evidence and studies that show ancient Illyrian's territories have existed on a land that today is called home for most of Balkan countries. Illyrians are viewed as the origin of today's modern Kosovo and Albanians. Although events from the prehistoric era are difficult to be proven for certain, many scholars agree on the origin of Albanians as a widely accepted explanation (Wilkes, 1992). Findings of other scholars also support such statement. For instance, Illyrian cultural

trandations have been passed from generation to generation up to this day to modern Albanians (Stipčević, 1977). From the cultural perspective for instance, Stipčević notes the traditional clothing of Hunting Godess Diana during second centry B.C.E; a clothing noted by the author to be in use in present day by the Albanian Kelmendi tribe. Such prehistoric cultural survival is elevated further in value and importance, when geographic location and the presence of substantial amount of diverse ethnic groups in the region are brought into the equation. This diversity in the heart of the Balkans Peninsula and the geographic locations, are two important elements that throughout times have shaped Kosovo's future for better or worse. Arguably this region has been viewed as a piece of pie, and was grabbed by many and thrown by some, during various treaties held by certain superpowers of the past two millennia. Surviving in this region however has left traces that are difficult to ignore. Many ruled and left a few marks, but in the long term none fully prevailed. For instance the Roman Empire, the Byzantine Empire, the Ottoman Empire, the Slavic and Serbian Kingdom, to name just a few (see fig. 2 for Ottoman Empire map ruling during 1800's).

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Figure 2

Map of Europe 1815 [MAP]. (2010). Retrieved from: http://www.lib.utexas.edu/maps/historical/europe1815_1905.jpg

Its most recent survival milestone was during the 1990s with Serbia. During this period for Albanian Kosovars it was impossible to develop and succeed. Rather, a series of events during this period are currently serving as inspiration for development and improvement. The Republic of Kosovo today stands as an independent country, having declared independence on February 17, 2008. Some countries have not

recognized Kosovo's independence, due to conflicts and criticisms brought forth by Serbia and its allies, claiming Kosovo's independence as violating international laws. This case was brought forth to the international court for judgment and review, and on July 22, 2010 the ICJ² concluded that "...Declaration of independence of 17 February 2008 did not violate general international law." (International Court of Justice, July 10, 2010) The future of her survival is bright but still depends on many factors. Some of the foundation factors are strongly established. For instance natural resources³, strategic geographic location⁴, human capital⁵, sound political relationship with several developed western countries, and her, already proven a few times over, indomitable people. Other factors that require further development to assure future success are shown in the following section.

Sustaining: the Business Development and the Economy

Kosovo was not always an environment where business challenges existed as they do today. That is not because there is some sort of utopian marketplace, but rather because there were no businesses, in terms of what a private business entails today, at least until late 1980s and early 1990s. The socialist era of former Yugoslavia had sculptured a giant governing body⁶ of people who managed businesses (almost all were socially owned), and determined production and consumption quantity. Although, one may point out that production for use (not for profit production) is a fundamental concept of a socialist economic system, but that was not the case with former Yugoslavia, or at least it did not feel like it through late 1980s and early 1990s. Some sources suggest that before the crisis of late 1980's, the ex-Yugoslav system was efficient and productive; needless to say that my experiences conclude otherwise.

If one does not consider this era as well as the grey economy that occurred in Kosovo as an "[...] inevitable side effect of Belgrade's policy [...]" (International Crisis

² International Court of Justice

³ Large proven resources of Lignite and other minerals

⁴ Strategic geographic location for connecting European countries for transportation

⁵ Kosovo is known to have the youngest average age in Europe

⁶ Working Committee



Group, December 2001) until year 2000, one finds that Kosovo is left with effectively only ten years of experience in conducting a proper business. In addition, factors such as economic, governmental and legal, political and global relations contribute in developing a sound business model. According to a publication entitled "Doing Business 2010 Kosovo," (The World Bank and The International Bank for Reconstruction and Development, 2009) Kosovo's "doing business" ranking has room for improvement. Figure 3 below has been adopted from the publication mentioned above, and portrays Kosovo's global ranking (out of 183) in various areas as determined by the IFC and The World Bank.

Figure 3

Rank	Doing Business 2010
Ease of Doing Business	113
Starting a Business	164
Dealing with Construction Permits	176
Employing Workers	34
Registering Property	68
Getting Credit	43
Protecting Investors	172
Paying Taxes	50
Trading Across Borders	132
Enforcing Contracts	157
Closing a Business	28

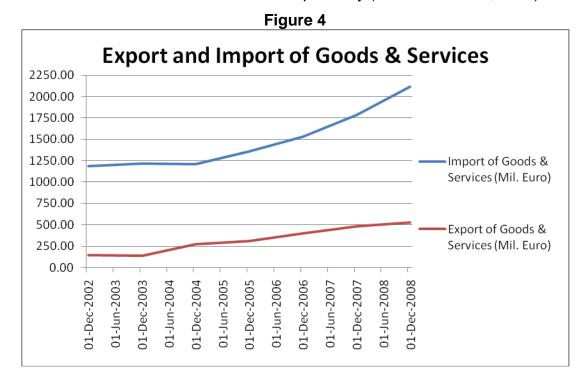
Doing Business 2010 Kosovo. Source: (The World Bank and The International Bank for Reconstruction and Development, 2009)

From figure 3, one can see that Kosovo's challenges are within Construction Permits, Protecting Investors, Starting a Business, Enforcing Contracts, and Trading Across Borders. Kosovo is in a relatively good standing in the areas of Closing a Business, Employing Workers, Getting Credit, Paying Taxes, and Registering Property.

Certainly these challenges are of a big concern, as they portray Kosovo's economic status and attraction (or in this case the lack of) to investors. These rankings are serious in nature, but it is important to note that these rankings are subject to discrepancies due to study limitations. This paper finds that the percent of income per capita variable, used in the ranking methodology (as noted in the study), and the lack of Kosovo's integration with European and global market does influence overall ranking process. For instance, Construction Permits, and Starting a Business index are

formulated by assigning a 33% and 25% weighting to the final ranking index, respectively, as a percentage of income per capita. Given Kosovo's unemployment rate and relatively low income per capita, this weighted percentage of income per capita does portray a fair figure for domestic investors, but does not represent a sufficient figure for international investors; as it is not portrayed in absolute value. For example, a 10% of Norway's income per capita, in absolute dollar value is equivalent to over 250% of Kosovo's income per capita, as of this writing. Therefore the weight in income per capita favors high income per capita countries.

In terms of the economy, agriculture, mining and service industries have been the main sectors of economical development in Kosovo. Manufacturing currently is not a major contributor, although historically Kosovo and its five largest cities are known for their traditional manufacturing capabilities and factories. Export and import data for Kosovo are sourced from the FactSet software which in turn gathers them from the International Monetary Fund (IMF). Kosovo has had a trade deficit since 2002, which is shown in figure 4. Exports have been growing with a much slower rate compared to imports. In 2007 and 2008 exports accounted for 13% of GDP and 14% of GDP respectively (The World Bank, 2010). Import on the other hand, accounted for 51% of GDP and 57% of GDP for 2007 and 2008 respectively (The World Bank, 2010).





Export and Import of Goods and Services in Kosovo (2010). Source: (FactSet and IMF)

Succeeding: the Leadership Behavior

Leadership is a key element for sustainable development in any sovereign nation across all sectors. It will be very difficult to doubt leadership importance and its vital role in long-term progress and growth for any nation including the Republic of Kosovo. Kouzes and Posner put it very nicely by stating that "The domain of leaders is the future. The leader's unique legacy is the creation of valued institutions that survive over time. The most significant contribution leaders make is not simply to today's bottom line; it is to the long-term development of people and institutions so they can adapt, change, prosper, and grow "(Kouzes & Posner, 2007).

Measuring leadership behavior

There are many researchers around the globe who have studied and researched leadership and leadership behavior and have provided countless insights, categorization, discoveries, and methodologies to measure leadership behavior and success (Pierce & Newstrom, 2008). After a leadership literature review, this study has adopted an instrument from notable work of James M. Kouzes, and Barry Z. Posner. This research instrument, Leadership Practices Inventory (LPI), "[...] is one of the most widely used leadership assessment instruments in the world" (Kouzes & Posner, 2007). The LPI is statically proven as a reliable instrument and has face and predictive validity. Internal reliability of this instrument is listed between .75 and .87 (Kouzes & Posner, The Leadership Practices Inventory: Theory and Evidence, 2002).

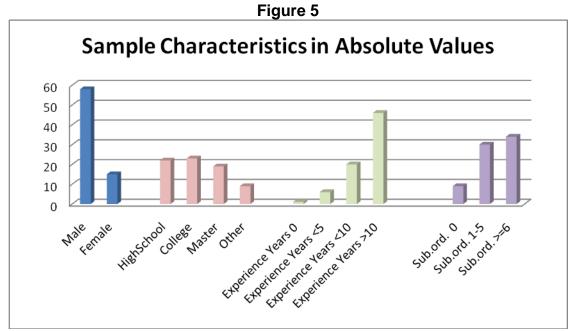
The LPI measures leadership behavior and is specifically designed to measure five practices as defined by Posner and Kouzes. They are called: "Five Practices of Exemplary Leadership: (1) Model the Way, (2) Inspire a Shared Vision, (3) Challenge the Process, (4) Enable Others to Act, and (5) Encourage the Heart" (Kouzes & Posner, 2007).

Each leadership practice is named properly to annotate what it measures; a detailed description of each practice can be found at Posner's and Kouze's latest edition of The Leadership Challenge book. Each practice is measured with six questions. Each



question has an answer ranked from one to ten; one being the lowest agreement representing *almost never*, and ten being the highest agreement representing *almost always*. Answers in between one and ten represent nuances of thereof.

This data sample consist a total of 81 responders. A total of 73 were valid and have been used to compute aggregate scores. The sample was compromised of leaders from both public and private sectors. Figure 5 lists respondents' characteristics grouped by gender, education level, work experience, and the number of subordinates.



Responders demographic characteristics in absolute values (2011)

Research results

The results of how respondents perceive themselves in leadership practices are listed in table 1. Encourage the Heart is leading the way in terms of aggregate score with 48.70, followed by Model the Way. Inspire a Shared Vision and Challenge the Process present the bottom two in aggregate ranking. The overall LPI score among all five leadership practices is 46.51.

Table 1
Results for Leadership Practices Inventory

		-			Std.	
	Minimum	Maximum	Mean		Deviation	
				Std.		
	Statistic	Statistic	Statistic	Error	Statistic	
Model the Way	31	60	47.34	.688	5.877	
Inspire a Shared	26	59	44.71	.894	7.635	
Vision						
Challenge the	24	57	44.70	.897	7.661	
Process						
Enable Others to	29	60	47.11	.715	6.111	
Act						
Encourage the	32	60	48.70	.720	6.155	
Heart						

Aggregate results for Leadership Practices Inventory (2011)

"LPI scores have been found, in general, to be unrelated with various demographic characteristics (e.g., age, marital status, years of experience, educational level)" (Kouzes & Posner, The Leadership Practices Inventory: Theory and Evidence, 2002), and this study finds no statically significant correlation between mean scores of each practice to sample data characteristics such as gender, education level, experience, and the number of subordinates, of the sample. Table 2 displays this in details using Anova, F value and P value, for each practice and sample characteristic.

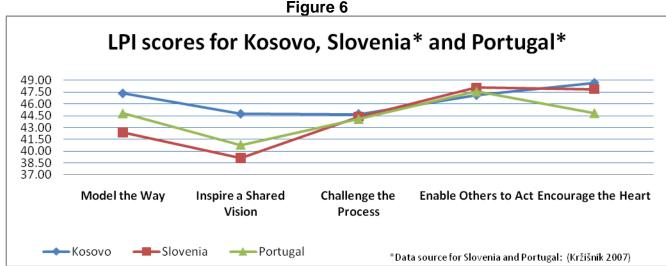
Table 2

			IUDI					
	Gender		Education		Experience		Subordinates	
	F	Р	F	Р	F	Р	F	Р
	Value	Value	Value	Value	Value	Value	Value	Value
Challenging the								
Process	0.387	0.536	0.871	0.354	0.846	0.361	0.553	0.46
Inspiring a								
Shared Vision	0.151	0.698	0.014	0.908	0.205	0.652	0.163	0.688
Enabling								
Others to Act	0.029	0.864	1.071	0.304	0.071	0.791	0.286	0.595
Modeling the								
Way	0.057	0.812	0.323	0.571	<u>2.11</u>	<u>0.151</u>	0.939	0.336
Encouraging								
the Heart	0.53	0.469	1.063	0.306	<u>1.809</u>	<u>0.183</u>	0.009	0.924

Leadership practices and their correlation with individual characteristics from the sample

Table 2 shows that there is a possible correlation, although it is not statically significant, it exists with Modeling the Way and Work Experience, and Encouraging the Heart and Work Experience. However, the only statically significance correlation can be found if the Experience from the sample data were to be categorized differently⁷ (i.e., by grouping work experience level in two groups; those with less than ten years of experience, and those with more than ten years of experience). Even in this scenario, the correlation significance is at P < 0.10 level, between Encouraging the Heart and Experience.

To the put the research results in the relative comparison scheme, a relative comparison has been made with a recent similar study (Kržišnik, 2007) for Slovenia and Portugal. Figure 6 shows a relative comparison of LPI scores between Kosovo, Slovenia, and Portugal.



Comparative LPI scores: Kosovo, Slovenia, and Portugal

Table 4 scores are believed to be comparable since the methodology used by this research (Kosovo) and Kržišnik research (Slovenia and Portugal) (Kržišnik, 2007) are similar. LPI scores for Kosovo are relatively higher in Model the Way and Inspire a Shared Vision leadership practice compared to Slovenia and Portugal. Enable Others to Act however, are slightly lower for Kosovo than both, Slovenia and Portugal.

At item level, for each question, we found statically significant correlation (P < 0.05). Table 3 lists those questions and categories where their corresponding statistical values.

⁷ As oppose to Experience categorization as shown in figure 5.



Table 3

Question	Category	F-	P-	R
		Value	Value	
Q1. I set a personal example of what I expect from others	Work	5.205	.026	.261
	Experience			
Q15. I make sure that people are creatively rewarded for	Education	5.073	.027	.258
their contributions to the success of projects				
Q3. I seek out challenging opportunities that test my own	Gender	6.079	.016	.281
skills and abilities				

Item level and category correlation

Results show there is a significant correlation between work experience and setting personal examples. Higher education on the other hand, is correlated with rewards in project contribution more often. Additionally, gender is significantly correlated with seeking challenging opportunities.

Conclusion and Recommendations

Kosovo is the youngest country in the world and her worldwide recognition grew from news agencies like CNN and BBC while reporting events of the late 1990s. This media's portrayal of Kosovo at the crossroads of conflicting interests was too myopic and one dimensional. Such attention has created an incomplete image of Kosovo. This is not to say that conflict is not an element related with Kosovo, as Cahani & Nathan 2011 thesis clearly show how Kosovo has struggled for survival for thousands of years, however viewing Kosovo only from this perspective would be unjust and unwise.

Modern Kosovo has come a long way, from Illyrians as the predecessors of majority of Kosovo citizens and throughout outlasting the Byzantine and Ottoman Empires. In a more recent history, Kosovo has survived the fall of the socialist system, thus the breakup of Yugoslavia, and ended with an ethnic battle with Serbia. Going beyond conflict, culture and traditions have been passed and shaped from generations to generations for the last two millennia. Such deep-rooted origin has created a unique national culture, which plays a key role in the success of any foreign business that operates in Kosovo. Today, Kosovo stands as an independent multi-cultural and multi-ethnic country recognized by some, and rejected and debated by others. For Kosovo this is a new beginning, as she is struggling to build a sustainable economic



development, and integrate into the global economy. For many MNEs (Multinational Enterprises), Kosovo is to be viewed as an upcoming frontier market with a few challenges and many opportunities. A prominent challenge for Kosovo leaders is to attract foreign investment. This is feasible through government initiatives that can offer opportunities in a healthy business environment, with an enforceable legal system, growth oriented tax rates, international integration focus, and a system that allows investors to acquire business permits in an efficient manner, to name a few. Kosovo, however, has other challenges. Trade deficit has been increasing since 2002. Higher education and infrastructure has shown progress in the right direction, but many improvements are still needed. Two greatest opportunities in Kosovo are: (1) human capital, and (2) natural resources; specifically Lignite - a type of coal used to produce energy - it is currently not utilized to its full potential. Ironically, despite these two advantages, unemployment remains over 40% and the supply of electricity is the number #1 issue (there are regular power outages and according to Enterprise Surveys power outage is the most noted business constraint).

Proper leadership can have a profound impact that can shift and shape the future of the Republic of Kosovo. Research results, gathered from a quantitative leadership behavior study that this paper has undertaken, indicate that most of the Kosovo leaders have a high progressive leadership tendencies in the private and the public sector. Even with positive leadership practices scores, the delayed development and progress can be partially explained from ineffective leadership practices of a few leaders that are at the very top positions of the public sector. Their individualistic practices are mainly attributed to transition economies and self interest, hence affecting leadership effectiveness.

Given the opportunities that lay ahead for Kosovo, her development structure, leadership and overall international image is bound to change. She can survive, has the resources to be sustainable, and has a great potential to succeed given a proper framework that encompasses vital areas of development. However, this change will not happen overnight, and more importantly, strategic governmental measures are required. There is much room for improvement, and many challenges are ahead. Lignite will not rise to the surface on its own, and certainly will not export itself. The human capital



advantage in Kosovo is not sufficient to attract foreign investors and MNEs. Ensuring contract enforcement, construction permits, and ease of doing business in general, are also an important part of the equation. From a macro perspective, recommendations for the government of Kosovo is to build its development and economic policies with special focus on: (1) poverty reduction, as it is this approach that contributes to economic growth and not the other way around (Banerjee, 2009), (2) making long term infrastructural and natural resource investment, (3) improving education quality and implementing practical and measurable assessments, (4) global trade and European Union integration, (5) creating an attractive and liable environment for foreign investment, (6) creating an efficient and effective governmental system with integrity and measurable results. From a private domestic investment perspective, Kosovo should continue its focus on high-tech services, but pay a particular attention to production, since manufacturing has the greatest opportunities for long term development and employment for the majority of the population.

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