THE ANALYSIS OF BUSINESS FAILURE FOR SMALL AND MEDIUM BUSINESSES IN KOSOVO

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Abstract
The aim of this study is identification of factors that caused business failure to small and medium businesses and application level of financial statement analyses in the investment decision-making process by these businesses in Kosovo since there were plenty of businesses failed any many other businesses are in crisis due to wrong decision making. There are several factors that influence the decision-making process but in this paper the importance of financial statement analysis as a factor with high impact on investment decision-making process will be elaborated.
The research has been conducted in 232 businesses failed during year 2011 in 21 municipalities throughout Kosovo. These businesses are the adequate indicators to know which factors have afflicted their failure and how they evaluated the financial statement analysis for their decision-making process. Data analysis and interpretation is processed with Statistical Program for Social Sciences SPSS v.15.0.

Key Words: *Financial analysis, failure business, Kosovo.*

JEL Classification: M21, G11, G17.

1. INTRODUCTION
Economic activity of Kosovo's businesses continues to face many problems which lead them to failure. Suchlike situation is initiated from several factors starting from unfavorable conditions from Kosovo's institutions and ending up to entrepreneur's lack of knowledge for business management.

The lack of basic knowledge in financial statement analysis is a crucial factor that results both lack of financial reports and lack of cash flow and influences as well investment and scheduled budget planning etc. meanwhile the opportunity for early diagnoses of business problems is decreased.

Businesses should use financial statement analysis to analyze the real capacities of an enterprise for investment decision-making since financial analysis plays an important role in decision-making process for every kind of business (J.Shkodra, et al., 2011). Financial statement analysis plays a dominant role in financial opportunity assessment for investment and future forecasting whereas its aim is to determine whether the investors' expectation from business planned investment is achieved or not.

In developed countries businesses use special models of data processing and results derivation for finding out investment capacities. On one hand business may flow in very good way but on the other hand business may became to some extend good or weak (J. Novák et al., 2002).
Investment as a process involves the engagement of large amount of money in present time while expecting the return of even more money in the future thus investment increase as higher as possible the value of money invested (J. Shkodra, 2010). Increased rate is proportionally linked with risk therefore the higher the rate the higher would be the risk. The "investor" can be an individual, a government, a pension fund, or a corporation (F. K. Reilly, K. C. Brown, 2008).
The concept of investment involves a wide specter of human activity. In a wide conception investment implies the engagement of cash in the following aspects (M. Mustafa, 2006):

- Production and service projects
- Science studies and researches
- Technological development, perfection of technological processes, creation of new products and trade invasion
- Personnel education
- Real estate etc.

Investment decision-making process requires a detailed commitment and analysis to determine whether to make decision for investment or not. Financial statement plays a very important and a fundamental role in this process because if this

information is not analyzed in proper way may lead to a situation where wrong investment decisions might be made.

As it appears this situation have influenced small and medium enterprises in Kosovo because even though they have declared that they have been using financial statement for their investment decision-making process, the decisions they took were false. This research will help us identify factors which resulted in many business failures in Kosovo in general and role of financial statement in particular. We will also understand what kind of analyses they have used for investment decision-making process. When we identify those factors we will be able to give conclusions and recommendations to small and medium enterprises in Kosovo to prevent their wrong decision making and potentially to prevent their failure.

2. RESEARCH METHODOLOGY

Investment decision-making process on one side involves the way how and what we invest and what will be the investment return but in the other side if there has been a lack of appropriate business management then it would lead to business failure. In Kosovo during 2011 there were 960 businesses failures (MTI). Suchlike situation lets us understand that investment decision-making process manners were wrong. This situation may happen due to many factors but main factor could be wrong financial statement analyses.

The main objective of this study is to determinate:
- Factors that resulted business failure
- Financial statement analysis application in these businesses

Statistical analysis in this study is focused in the following four questions:
1. What was the Kosovo's institutional service in favor of these businesses?
2. What was the manager's knowledge level about business management in general?
3. What was the manager's knowledge level about financial statement analyses?
4. What kind of analysis managers have used for investment decision-making process?

Research is conducted through questionnaires with ex-managers of 232 businesses failed during 2011. The list of these businesses is provided from Business Registration Agency – BRA which operates under Ministry of Trade and Industry

– MTI and registers all kind of business operating throughout Kosovo. Research has been realized during period 5th to 30th of December 2011 from the students of University of Pristina - Faculty of Economics, department of Banking and Finance. Data analysis and interpretation is processed with Statistical Program for Social Sciences SPSS v.15.0. Few statistical analyses were used such as Chi-Square test, Asymp. Sig (2 sided) and Cramer's V.

3. RESULTS AND INTERPRETATION OF TESTED HYPOTHESES

Table 1 shows the number of business failed in 21 municipalities throughout Kosovo whereas table 2 shows types of businesses failed.

Table 1. Regions involved in research

	Frequency	Percent	Valid Percent	Cumulative Percent
Deçan	1	.4	.4	.4
Dragash	4	1.7	1.7	2.2
Ferizaj	27	11.6	11.6	13.8
Fushë Kosovë	4	1.7	1.7	15.5
Gjakovë	8	3.4	3.4	19.0
Gjilan	25	10.8	10.8	29.7
Gllogovc	2	.9	.9	30.6
Kamenicë	3	1.3	1.3	31.9
Lipjan	1	.4	.4	32.3
Mitrovicë	19	8.2	8.2	40.5
Pejë	16	6.9	6.9	47.4
Podujevë	11	4.7	4.7	52.2
Prishtinë	44	19.0	19.0	71.1
Prizren	34	14.7	14.7	85.8
Rahovec	3	1.3	1.3	87.1
Shtërpc	1	.4	.4	87.5
Shtime	1	.4	.4	87.9
Skenderaj	1	.4	.4	88.4
Suharekë	6	2.6	2.6	90.9
Viti	5	2.2	2.2	93.1
Vushtrri	16	6.9	6.9	100.0
Total	**232**	**100.0**	**100.0**	

As we see from Table 2 based on legal statuses of 232 businesses 214 of them or 92.2% belong to individual businesses, 12 businesses or 5.2% belong to limited liability companies and 6 businesses or 2.6% belong to general partnership.

Table 2. Failed businesses classified based on legal statuses

	Frequency	Percent	Valid Percent	Cumulative Percent
Individual business	214	92.2	92.2	92.2
Limited liability company	12	5.2	5.2	97.4
General partnership	6	2.6	2.6	100.0
Total	**232**	**100.0**	**100.0**	

Table 3 shows when these businesses got registered from BRA. We have divided period from 2000 to 2011 into three periods. First period involves years 2000 to 2003 where 20.7 of businesses got registered which implies that their activity have lasted from 8 to 11 years, second period involves years 2004 to 2007 where 23.7 of businesses got registered which implies that their activity have lasted from 4 to 7 years and third period involves years 2008 to 2011 where 55.6 of businesses got registered. From third period we see that more than half of businesses have operated for less than 3 years.

Table 3. Businesses registration periods

	Frequency	Percent	Valid Percent	Cumulative Percent
2000/03	48	20.7	20.7	20.7
2004/07	55	23.7	23.7	44.4
2008/2011	129	55.6	55.6	100.0
Total	**232**	**100.0**	**100.0**	

In question "What caused your business failure?" from multiple answers we had these results:
53.2 % "lack of financial means", 52.6 % "unfavorable fiscal policies", 43.7 % "high credit interest rates", 39.5 % "lack of institutional support" , 38.9 % "Kosovo does not possess authentic economic policies".

In question "Have you got business plans for your business activity?" 29.8% of respondents have answered with "Yes" and 70.2% of respondents have answered with "No" which immediately gives us a bad opinion for these businesses.
As regards to financial statement analysis application 62.7% of respondents answered with "No" whereas 37.3% with "Yes", but what kind of analysis have

they used respondents gave the following answers: 78.1% used "income statement", 19.7% "balance sheet and income statement" whereas 2.2% "balance sheet, income statement and cash flow statement".

Out of 37.3% of respondents who have used financial statement analysis only 3.4% have applied that analysis for investment decision-making process where 2.2% out of 3.4% applied profit analysis and the rest 1.2% applied costing. What is worse is that all respondents answered that financial analysis were done by personnel not pertaining to the field of economic and finance.

The hypotheses test was:

- Level of knowledge in investing decision-making process.

The independent variable was: working experience and level of knowledge in financial analysis.

H1: Managers with longer working experience know to make decisions.
H2: Managers who have attended trainings know execution of financial analysis.

Table 4. Hypotheses test in level of knowledge in decision-making

Independent variables	Chi-square	Df	Asymp. Sig(2 sided)	Cramer's V
Work experience	17.229	10	0.134	0.284
Level of knowledge	5.182	3	0.197	0.324

* p < .05 hypotheses is proved

H1: Results showing that experienced managers didn't had tendency to know financial methods more. The $P = 0.134$ show that managers experienced does not influence evidently in the level of financial knowledge.

H2: Results from $P = 0.197$ show higher level of knowledge didn't had more tendencies to execute financial analysis.

4. CONCLUSION
The aim of this research was to identify factors which potentially caused business failure and to see to what extend managers of these businesses were committed to financial statement analysis. From respondent's answers the following

conclusions were made about the factors that caused the failure of their businesses:

- Unfavorable business environment: Kosovo worked to ensure facile business registration procedures meanwhile other business environment procedures for joining European Union have not fulfilled yet.
- Lack of adequate economic policies.
- Business plan compilation neglection which helps in predicting business risk and increasing the opportunity for business success.
- Lack of financial analysis application where 62.7% of business have declared to not use these analyses which in fact are very important for business since despite reflecting the real situation of your business they also are necessary when doing analysis such as: return on capital, return on investment, profit margin and return on sales, flow of goods, debt collection period etc.
- Lack of cash flow.
- Lack of trade analysis.
- Insolvency: high credit interest rates and short grace periods.
- Low level of business manager' knowledge in business management.
- Lack of consciousness over financial statement analysis importance.
- Lack of adequate training pertaining to financial statement analysis.

There were other minor factors apart those mention above but as a conclusion we can say these businesses acted based only on their assumptions thus applying old strategies without financial and economics analysis. Even though few businesses have applied financial statement analysis methods, these analyses were done by peoples not pertaining to the field of finance.
Therefore Kosovo's institutions should deal seriously with this problem since the failure of 960 small and medium businesses during year 2011 is a very concerning issue taking into consideration the fact that these businesses help the development of Kosovo's micro and macro economy.

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