

## The Development of Human Resources and Labour Market

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### Abstract

This paper aims to give an overview of the need of knowledge management in the organization, as well as understanding the preconditions and obstacles for the openness of economic and education system in Kosovo with systems in the region as a factor in human resource development. Kosovo has some demographical features that have major influence in the overall development. Due to dominance of young population, the demand for education is high in comparison with the absorption capacity of the economy. Also, the requirements of businesses and institutions are ongoing for the applied knowledge, achievement of which requires continuous increase of mobility of the students as well as teachers. Hence, this paper highlights the importance of completion in the education as a way for convergence and sustainable economic development.

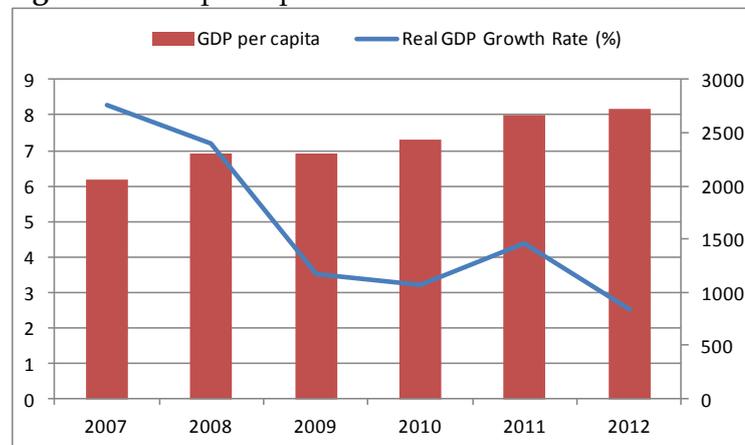
**Key Words:** human resources, education, training, knowledge management,

### 1. General Characteristics of Kosovo's Labour Market

Kosovo's economic opportunities for integration with European market currently are modest. According to Statistical Agency of Kosovo (SAK), GDP growth during 2012 has marked 2.5%. The positive trends of growth of economic activity during last decade have been persistent, however, the convergence process remain at a slow paste, especially in the post crisis period. GDP per capita is currently at nearly 2800 euro, which is the lowest level in the region. However, when considering GDP per

capita by purchasing power parity, Kosovo stand closely to Bosnia and Herzegovina and Albania. A continues challenge for Kosovo's economy remain the high level of unemployment, which according to SAK during 2013 it reached 30.9%. In addition, a significant number of the work force does not participate in the labour market due to the difficulties of employability. According to SAK, around 15% of the labour force are discouraged from the labour market, hence, are not part of the active labour market. Also, Kosovo's economy is further challenged by the relatively high rate of extreme poverty, which according to World Bank (2013), is estimated to be around 10%.

**Figure 1: GDP per capita and Real GDP Growth rate**



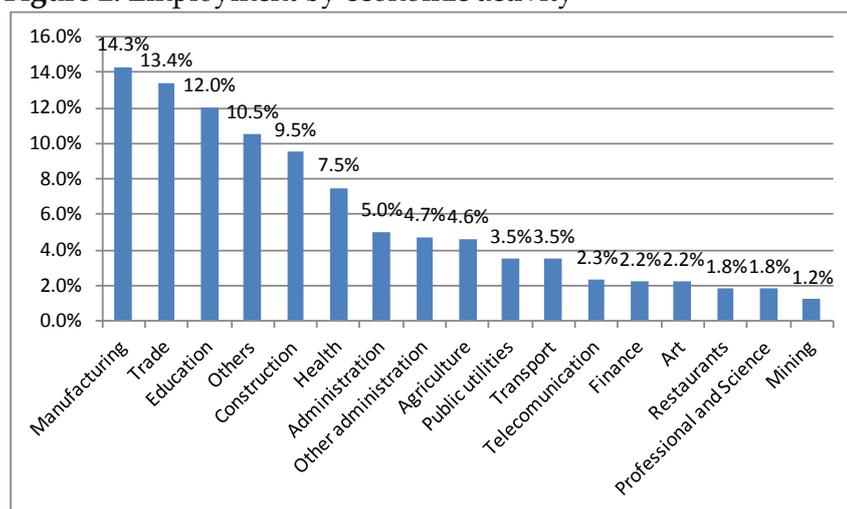
Source: SAK (2013)

Literature recognizes the Small and Medium Enterprises (SMEs), especially for transition countries, as the source of overcoming the transition process and ensuring a sustainable employment and economic growth (OECD, 2004; McPartland and James 1986). According to OECD (2004), SMEs account for around 95% of enterprises in its member states. Also in advanced economies, around 60% to 70% are jobs of the enterprises and private sector. Similarly, SMEs account for over 90 percent of the firms in transition countries which at the same time, is the main job creator sector (OECD, 2004).

While in Kosovo's economy, the data shows the dominance of small enterprises, which constitute of around 99% of all enterprises, while the remaining part is populated by medium and large enterprises (SAK, 2013). The data on the employment of SMEs are not available; however, due to the composition and also due to the employment by economic activity which is dominated by manufacturing and retail trade, one can conclude that the

employment and generation of new jobs is generated from small enterprises (Figure 2).

**Figure 2:** Employment by economic activity



Source: SAK (2013)

Due to high level of unemployment and low capacities of the economy to generate new jobs, this level of unemployment is considered to be structural and long-term unemployment. This is because majority of job-seekers (over 60%) are unemployed for a period of longer than 12 months (SAK, 2013). Consequently, given the type of unemployment, it is of curtail importance to increase the cooperation between the education system and the economic system in country. This is especially given the lack of on-the job training but also the lack of labour market experience, which is considered as one of the main factors for finding a job but also for the earnings of individuals (Mincer, 1974; Becker, 1975)

**Table 1:** Labour Market Characteristics

	Male	Female	Total
Labour Force Participation Rate	55.4	17.8	36.9
Inactivity Rate	44.6	82.2	63.1
Employment Rate	39.9	10.7	25.5
Unemployment Rate	28.1	40	30.9

Source: SAK (2013)

The labour market in Kosovo differs greatly from labour markets in the region, primarily due to the demographic factor. Kosovo has one of the youngest populations in the world, with 45 percent of its population being under the age of 24, while about 40 percent are between 25 and 54, with the late group of 55-64 and over 65 being represented by around 7 percent each (SAK, 2013). This structure of the population indicates that the excess labour supply existing in the economy is relatively large. However, it must be noted that the labour force participation rate is relatively low (Table 1) and with substantial differences between male and female. Moreover, it is the young age-groups of population which are facing significantly higher unemployment rate compared to the labour force of over the age of 35.

**Table 2: Unemployment by Age-Groups and Gender**

Age-Groups	Male	Female	Total
15-24	52	63.8	55.3
25-34	31.8	42.5	34.6
35-44	23.4	36.6	26.6
45-54	16.7	23	18
55-64	108	2	9.5

Source: SAK (2013)

However, the qualification of individuals appears to be one of the main problems for the poor performance of the labour market. The data suggest that around 60% of the unemployed and in search for the job have inadequate qualification. This lack of professional qualifications is one of the main causes of prolonged period in finding a job, besides low rate of new job creation. The data presented below confirm these poor conditions in terms of qualification of the unemployed individuals. Qualification structure of labour market supply is inadequate for the needs of economic development of Kosovo.

**Table 3: Unemployment by Education and Gender**

	Male	Female	Total
Uneducated	56.0	82.1	62.5
Primary Education	40.3	59.0	44.6
Professional Schools	25.9	36.1	28.0
High School Education	35.4	50.2	38.8
University or higher	11.5	24.4	15.6

Source: SAK (2013)

In this structure, over 60% of the unemployed are uneducated while other age-groups are also substantially high. As presented in table 3 below, professional schools and those with tertiary education have the lowest unemployment rate which confirms that adequate qualification is necessary for job-search process.

## 1. Development of the Market and Knowledge Management

SMEs in Kosovo are not distinguished with long-term experience given that transition process started in late 90s. However, various surveys show that enterprises are aware that knowledge management is a key element of the organization in providing competitive advantage over other organizations that compete in the Kosovo and regional market (Riinvest, 2004). Although throughout surveys, many enterprises reported that knowledge management is key driver for growth, the data may indicate some interesting facts about the SMEs and their employees.

**Table 4:** Education and the type of employer

	Public Sector	Public Enterprises	Private Enterprises	Individual Enterprises
Uneducated	0	0	0.6	0.2
Primary Education	6.2	5.4	19.3	34.4
Professional Schools	32.4	37.2	50.4	48
High School Education	10.3	13.1	16.1	12
University or higher	51	44.3	13.7	5.4

Source: SAK (2013)

For instance, as presented in table 4, private and individual enterprises are usually characterized with unskilled and professional school employee structure. This indicates that at least for the present situation, it might be that the qualification of the managers of the enterprises is insufficient to be able to evaluate the importance of highly educated employees and/or that currently the SMEs in Kosovo may not be at a stage where high education is considered as a necessary asset for further development and competition. Furthermore, the data presented by the Ministry of Labor and Social Welfare (MLSW, 2011) suggest that also there is a substantial lack of professional training for the category that needs the most, that is the category of unskilled and semi-skilled.

These categories are not included in vocational training, or are engaged in symbolic percentage. Included in the training of unskilled are only 0.4%, while the unskilled by 0.1%. Category that mostly benefits from training is that with university education with around 12.7%, which at the same time, has the highest employment rate.

Moreover, according to the research conducted by Riinvest (2012), 52% of employees in SMEs who have attended any training are not of the profession applied in their company. These results clearly give indication of the lack of knowledge management in the organizations. Also, according to these results one can note that these managers do not have sufficient skills to estimate the needs for knowledge, and do not have any knowledge database for people to manage in order to determine the priority of development and nature of the training. Also the responds show that 39% of these workers have never used knowledge gained from the trainings in the advancement of the company. The result show that 10.6% of workers employed in SMEs are not satisfied with their knowledge. If we consider that workers are subjective and that their self-esteem can often evasion reality, then it can be assumed that this percentage would have been even higher. Around 16.2% of the respondents state that they feel that they are useless in the company and it is mainly the knowledge in their possession that affects them. However there is a significant percentage of workers who value the importance and renewal of knowledge based on changes that have occurred in the company and based on the needs of the company.

The process of training the human resources brings additional knowledge gains in human resource development, so they can increase their skills, become more capable, more professional, better understand the enterprise works and above all, reach their level of readiness to perform the duties assigned. In Kosovo, the training is still regarded as a process that involves high cost for the company; therefore, there is a low participation to trainings (Riinvest, 2012).

The low level of participation in additional training proves unwillingness of the owners to support employees and also the negligence of workers to continue to advance their knowledge. The results show that most owners (79.7%) and managers of SMEs are not involved in any kind of training (Riinvest, 2012). From the results and responses of managers and employees of enterprises, several areas have been identified with the priority for the training. Financial management, marketing management, project management, and strategic management are amongst the most important areas that employees need to advance their skills (Riinvest, 2012). The analysis of barriers in doing business has shown that one of the least important obstacles is the development of managerial skills (Riinvest, 2012). However, the response of the owners in

the survey regarding the need for training for management personnel in various fields are certainly being neglected, especially that managerial skills are often considered as an important asset towards business development (Thorpe, 2012).

## **2. The Role of Education Institutions and Development**

Countries that have undergone the transition phase have paid high attention to the knowledge and the importance it has for the economic development (Makogon and Orekhova, 2007). Education is an investment in knowledge and, as a consequence, it increases labor productivity (Schultz, 1971). The EBRD 2013 Transition Report, emphasizes the importance of the “productivity catch-up” phase, which according to the report is now opened to the outside world. This productivity catch-up phase is substantially related to the quality of education, which is also considered as one of the most important aspects of SMEs development. The World Bank Research Paper prepared by Hanushek and Wossman (2007) finds empirical evidence that given the increased global competition between both economic and educational system, there is no guarantee that only the school attainment will improve economic conditions. In fact, the authors suggest that the role of education in promoting economic well-being should be initiated by the improvement of the educational quality (also suggested by Misra and Baipai, 2010), providing empirical evidence that the cognitive skills of the population are powerfully related to individual earnings, to the distribution of income, and to economic growth.

As for Kosovo, using the data from a survey conducted with business about their anticipation of the quality of labour market, half of the businesses do have the opinion that the new employees are well prepared for their new tasks, while 10% of businesses believes that the new entrants lack practical knowledge, however they suggest that this knowledge is gained over time. On the other hand, about 40% of the businesses suggest that the new employees lack elementary knowledge. This emphasizes the role of cooperation between educational institutions and the business requirements in the context of labor market improvements.

Knowledge of the employees and the strength of this asset besides creating skills, use of technology, it is intended specifically to create conditions for the development of new products and services. Moreover the contributions in the advancement of processes and innovation that derive from knowledge have direct impact in the competitive position of the firms and countries in the market and as suggested by Sahlberg (2006), recently the evidence suggests that the deeper cooperation, networking and open sharing of ideas will increase the competition. As a result the importance of the system of education and lifelong

learning and the importance of knowledge management is recognized as a necessity by the business and academics (Business Survey, 2011).

Fundamentals of successful performance of enterprises beside the external influence must be sought within the company and its education structure which prepare their human resources. Human resources, amongst other variables, are important asset of the company, are those who research, design and differentiate the company from other companies (Moguatas et al. 2009). Today, the most valuable intangible assets are considered to be the knowledge, which, if successfully integrated into the culture of learning and organization has increasing benefits for the enterprise and the economic activity in general.

Therefore, the process of knowledge management is of crucial importance for the SME and the economy of Kosovo. Hence, it should insist and rely on the knowledge that generates economic growth and creation of new jobs.

Competition in education gradually has started to break the national barriers (TLRP, 2008). Due to the benefits of quality promotion, information knowledge that people gain from each other's systems, regional countries have started reforms in openness and increasing mobility of students and teachers.

For education system in Kosovo, it is crucially important integration and cooperation with regional country (Brigitte, 2002), and with special focus towards that of Albania. Cooperation should aim appropriation of scientific developments and changes in education systems in order for a quicker advancement and convergence.

### 3. Conclusion

One of the biggest challenges for Kosovo's economy remains high unemployment rate and slow development of the private sector in recent years. The current efforts in reducing unemployment rate are not showing significant results. Experiences from world economy shows that active measures are needed and the policies should be directed toward the supply and demand for labour. Thus, the aim of policies beside the creation of opportunities for new jobs creation, should also improve the functioning of the labour market and structural conditions. Measures related to (a) improvement of employment skills, (b) development of the entrepreneurial spirit, (c) adaptation of permanent employees and businesses to market requirements; (d) measures to reduce discrimination against women in employment are among the most important steps toward creation of better conditions for labor market. The costs of such a policy will initially be high, but the long term effects will sometimes exceed them.

Integration processes generally start with education field, then is extend to other areas such as economy, science, and culture. Assessment of who has the

qualities needed - required, it is very important to the education system especially in transition countries, because based on their assessment (which also can be sometimes subjective) these systems will take the decisions in reform processes. Therefore, policy attention should be directed toward the development of educational system which would enhance the level of human resources and serve as one of the most important means of increasing the labor productivity as well as speeding up the integration process. The importance of education system, simplification of administrative barriers, improvement and changes in the functioning of labor market institutions and reduction of fiscal pressure are found to be as leading reforms for improvement of the labor environment.

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