

# An Analysis and Evaluation of Foreign Direct Investment in Kosovo

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## Abstract

As global markets continue to expand and competition continues to hasten, it is imperative that global business managers explore all potential investment opportunities. A country of potential foreign direct investment that may not be obvious to many global business managers is Kosovo. Kosovo is a small, sovereign nation located in a strategic area of the Balkan Peninsula, bordered by Albania, Macedonia, Montenegro, and Serbia. Kosovo serves as the gateway from the Balkan Peninsula to central and southern Europe. While securing its independence from Serbia in 2008, Kosovo has worked to attract foreign direct investment and be a contender in the global economy. This paper explores the cultural and social environment, the economic and political environment, and the business and market environment in Kosovo and provides an overview and evaluation of the foreign direct investment potential of Kosovo.

**Keywords:** foreign direct investment, Kosovo, global business, global business management

## 1. Introduction

This paper provides a focused analysis and evaluation of the country of Kosovo with regard to the potential for foreign direct investment. Several key topics related to the consideration of Kosovo as a foreign direct investment market will be highlighted from the perspective of the global business manager. In the first section, a discussion of the cultural and social environment of Kosovo will be presented. To begin, significant cultural factors will be discussed with emphasis on the influence culture has on the business environment in Kosovo. Next, key differences between Kosovo and the United States will be explored, as well as the implications these differences have on business and trade with Kosovo. Furthermore, a brief survey of religious beliefs and their impact on social and business behavior will be discussed. Finally, an overview of social factors as they relate to local business in Kosovo will conclude this section.

In the second section of this paper, a discussion of the economic and political environment of Kosovo will be presented. First, significant economic factors will be discussed with emphasis placed on how major economic opportunity and risk variables are evident in Kosovo. Next, foreign direct investment will be explored, along with possible collaborative strategies that might present an opportunity in Kosovo. Additionally, an overview of local income distribution and its contributing factors will be considered. Finally, a brief survey of the role Kosovo plays in the global economy will conclude this section.

In the third and final section of this paper, a discussion of the business and market environment in Kosovo will be presented. First, key market indicators such as production factors, labor costs, and competitive advantage opportunities will be explored, along with potential emerging markets in Kosovo. Next, the role of government in Kosovo will be reviewed, with special attention to trade policy and economic incentives for business development. Additionally, a brief survey of possible business entry strategies will be discussed. Finally, an overview of key aspects of evaluating the opportunity for foreign direct investment in Kosovo will conclude this section.

Altogether, this study provides information to assist global business managers in becoming knowledgeable about the foreign direct investment potential of Kosovo and provides much groundwork and data for global business managers to evaluate and consider.

## 2. Cultural and Social Environment

### 2.1 Background

Kosovo is an independent republic that is located on the central Balkan Peninsula of Southeast Europe. Kosovo encompasses approximately 4,200 square miles of territory and borders Serbia to the north and the east, Montenegro to the west, and Albania and the Republic of Macedonia to the south. Daniels, Radebaugh, and Sullivan (2015) argued, "...a nation legitimizes itself by mediating its diversity, and those that fail to do so often dissolve..." (p. 53). This was indeed the case for Yugoslavia, which by its dissolution created several new countries, one of which was Kosovo (Krijestorac, 2015). Still under Serbian rule for some time, Kosovo officially declared its independence from Serbia in February of 2008, and established the city of Pristina as its capital (Rossi, 2014).

### 2.2 Significant Cultural Factors

Since gaining its independence in 2008, Kosovo has engaged in nation building, and has worked to shape its image as a multiethnic state that guarantees civil rights, freedom of expression, and preservation of cultural identity for all of its citizens. Kosovo is comprised of six major ethnic groups including Albanians, Serbs, Turks, Gorani, Roma, and Bosniaks (Ermolin, 2014). Kosovo's challenge will entail mediation of these diverse ethnic groups and establishment of a united national culture. This ethnic diversity plays an important role in shaping the overall business environment in Kosovo.

Albanians represent 92% of the total population in Kosovo, and Albanian is the official language of the country. However, Serbian, Bosniak, and Turkish are also spoken languages in Kosovo (World Travel Guide, 2018). Since gaining its independence and recognition as a sovereign state by the United States and other leading nations, businesses in Kosovo are now free to engage in the global economy (United States, 2008). Therefore, global business managers seeking to engage in business with Kosovo must gain familiarity with the native languages of the region as well as other cultural nuances.

For example, gender roles have a significant influence on the business environment in Kosovo. Businesses in Kosovo are still very traditional and hierarchical, and men tend to hold the majority of managerial positions in most companies. However, with Kosovo now enlisted as a democratic state, as time goes on more women will likely be appointed to management roles within businesses. We see this already happening in the public sector, where the government has established quotas for women as members of parliament (National Democratic Institute, 2015). Global business managers must take these gender issues into account and likely use male expatriates to begin establishing relationships with businesses in Kosovo. Additionally, Kosovo society subscribes to a relationship-focused culture rather than a deal-focused culture. That is, the citizens of Kosovo place a higher value on people and relationship building than they do on tasks and timelines (Daniels, Radebaugh, & Sullivan, 2015).

### 2.3 Differences From the United States of America

The United States is an individualistic society, and this is generally representative of how employees behave within its business environment. Competition is commonplace, and business professionals take measures on their own accord to develop and grow in hopes of moving up the corporate ladder. The notion of "every man for himself" is alive and thriving in the United States. Furthermore, American culture in general is more task-oriented as opposed to relationship-oriented. Time is of the essence, and businesspeople have a tendency to be impatient with preliminaries and want to get down to business quickly and move on to the next task. Business managers in the United States are generally considered to have low power distance, and therefore, enjoy a much more democratic style of leadership (Daniels, Radebaugh, & Sullivan, 2015).

Global business managers must have awareness of these stark differences in the business culture of the United States and the business culture of Kosovo (Sadrija, 2014). Global business managers must schedule more time to do business with organizations in Kosovo, as taking time to develop relationships and build trust are required. Furthermore, meetings will likely be more informal and take more time, often held at a restaurant or café over coffee. Hierarchy is important to businesses in Kosovo, and therefore global business managers will need to work directly with Kosovo business managers and not usurp their authority to deal directly with lower-level staff (World Travel Guide, 2018).

### 2.4 Impact of Religious Beliefs

Kosovo is a mostly secular society, but there are some strong religious beliefs among the population. "Managers need an appreciation of the ethical norms of different groups and cultures in order to gain a complete understanding of the cultural environment in which the firm must operate" (Rice, 1999, p. 345). The majority of the population in

Kosovo subscribes to Islam. Additionally, a small percentage of the population are of the Serbian Orthodox or Catholic faith traditions. Therefore, religion plays an important role in the business environment of Kosovo.

Global business managers must appreciate the extent to which religion and Islamic law are intertwined and permeate all levels of society in Kosovo, including business and commerce (Lagace, 2002). To that extent, global business managers must be educated on the tenants of Islamic law. For example, a significant principle of Islamic law forbids interest to be paid or collected in any business transaction. Islam also subscribes to the belief that partnerships are preferred over hierarchical claims when enforcing contracts. This is apparent in Kosovo's collectivist culture, and manifested by the spirit of compassion and concern that is expected of Muslims when a business is experiencing difficulty (i.e. in bankruptcy). These are just a few of the major influences that Kosovo's most prominent religion has on businesses in Kosovo.

### *2.5 Social Factors in Local Business*

Kosovo is a highly collectivist society that strongly values the family unit. Members of society embrace the concept of the vertically extended family, often with several generations living under the same roof (Daniels, Radebaugh, & Sullivan, 2015). This culture of collectivism spills over into the business environment, as building relationships and trust are prerequisite to engaging in business transactions. Business meetings are often held at a restaurant or café over coffee, and tend to be more relationally focused as opposed to task oriented (World Travel Guide, 2018). Kosovo is a very hierarchical society, and its businesses are organized in the same fashion. Therefore, there is a high power distance within organizations, and autocracy is the common style of management.

## **3. Economic and Political Environment**

### *3.1 Significant Economic Factors*

Opportunities and potential risks must be considered when evaluating the viability of doing business in a foreign country. The population in Kosovo is just under 1.9 million as of July 2017 (The World Factbook, 2018). Therefore, Kosovo is limited in terms of market size. This could be a concern, as sales expansion is one of the most important opportunity factors motivating companies to engage in international business. Another opportunity factor to consider when evaluating a country is resource acquisition, which takes into account labor, infrastructure, ease of transportation, and governmental incentives (Daniels, Radebaugh, & Sullivan, 2015). Major industries in Kosovo include mineral mining, construction materials, base metals, leather, machinery appliances, and textiles (The World Factbook, 2018). Kosovo enjoys a fully developed road network and railway system that spans all major areas of the country. Furthermore, Kosovo boasts an airport that offers flights to the most important European locations as well as connections to the United States (Independent Commission, n.d.). Kosovo continues to develop economic incentives for businesses looking to invest in the country. Currently, Kosovo offers the ability to carry-forward losses, avoidance of double taxation, and investment guarantees. Additional investment incentives are currently in development (Ministry of Trade and Industry, n.d.).

Potential risks must also be considered when evaluating the viability of doing business in a foreign country. Types of risk to consider include political risk and foreign exchange risk. The most significant political risk in Kosovo is the relative infancy of the nation. Surprisingly, the Kosovo War in 1998-99 influenced investment risk very little (Bechtel, 2009). However, some countries that were involved in the war still do not recognize Kosovo as an independent state (Hosman & Howard, 2014). Today, Kosovo enjoys overwhelming support from North Atlantic Treaty Organization (NATO) countries (Bawn and Somer-Topcu, 2012). Foreign exchange risk must also be considered (Daniels, Radebaugh, & Sullivan, 2015). The official currency Kosovo's is the Euro, which is a stable currency that is currently exchanging at a rate of \$1.18 to the United States dollar (Bloomberg, 2018).

### *3.2 Foreign Investment Opportunity*

Kosovo provides significant opportunities for foreign investors. Kosovo trade strongly favors imports over exports. Imports for 2016 were \$2.69 billion while exports were only \$349 million. Kosovo's main export partners include Albania, Macedonia, Germany, Switzerland, Bulgaria, Netherlands, Turkey, and Austria while their main import partners include Macedonia, Turkey, Germany, Albania, Slovenia, and Italy. Major exports include mining and processed metal products, scrap metals, leather products, machinery, appliances, prepared foodstuffs, beverages and tobacco, vegetable products, textiles and apparel, and major imports include foodstuffs, livestock, wood, petroleum, chemicals, machinery, minerals, textiles, stone, ceramic, and glass products (The World Factbook, 2018). Therefore, a company could potentially make direct investment in Kosovo through exporting goods and services to the country.

Furthermore, there are collaborative investment strategies that investors should consider in Kosovo. Franchising is a growing phenomenon in Kosovo, as evidenced by the growth of Kolonat, a brand of fast-food restaurants operated

by Belavis, Ltd. Additionally, management-consulting contracts also may be an area of opportunity, as foreign companies could lend specialization and expertise to businesses in Kosovo (Daniels, Radebaugh, & Sullivan, 2015). Joint ventures are also a lucrative option for investors. Bechtel Group, a San Francisco-based firm, and joint venture partner Enka, a Turkish-based firm, contracted for the construction of a major motorway in Kosovo (Bechtel Group, 2010).

Due to the relatively small size of Kosovo, a company would be most successful using an international division structure in Kosovo. This type of structure is preferable when a company's home market dominates sales compared to their international sales. A company would likely use this model if it were their first entry into the international market. If the intent were to expand to multiple countries, this model would likely be cost-prohibitive, as international division structure limits costly country-to-country duplication (Daniels, Radebaugh, & Sullivan, 2015).

### *3.3 Local Income Distribution*

Kosovo's Gross Domestic Product (GDP) purchasing power parity (PPP) was \$19.38 billion in 2017, compared to the United States GDP of \$19.36 trillion. Kosovo's citizens are among the poorest in Europe with a per capita GDP (PPP) of \$10,400 in 2017, compared to the average European Union (EU) per capita GDP of \$39,200 and an average United States per capita GDP of \$59,500 (The World Factbook, 2018). Only 44% of adults in Kosovo hold an account at a formal financial institution (Demirguc-Kunt and Klapper, 2013). In 2016, the total labor force of Kosovo was 483,200, and the unemployment rate was high at 34.8%. Kosovo enjoys lower labor costs than the rest of the region, which could be an attractor for foreign investors (The World Factbook, 2018).

### *3.4 Role in the Global Economy*

Since declaring its independence from Serbia in 2008, Kosovo has slowly but steadily increased its involvement in the global economy. Kosovo joined the World Bank and the International Monetary Fund in 2009. Serbia and Bosnia previously refused to recognize Kosovo's customs stamp or extend tariff privileges for Kosovo products under the Central European Free Trade Agreement (CEFTA); however, both countries resumed trade with Kosovo in 2011. Moreover, Kosovo recently concluded the Stabilization and Association Agreement (SAA) negotiations with the EU focused on trade liberations, which opens up trade even more for Kosovo (The World Factbook, 2018). The government is actively taking steps to encourage further trade within the international economy.

## **4. Business and Market Environment**

### *4.1 Emerging Markets*

Kosovo has untapped potential for regional competition. Traditionally, major markets in Kosovo have consisted of mineral mining, construction materials, base metals, leather, machinery appliances, and textiles. Major exports include mining and processed metal products, scrap metals, leather products, machinery, appliances, prepared foodstuffs, beverages and tobacco, vegetable products, textiles and apparel, and major imports include foodstuffs, livestock, wood, petroleum, chemicals, machinery, minerals, textiles, stone, ceramic, and glass products (The World Factbook, 2018). However, there has been significant growth in new and emerging markets in Kosovo over the last few years. Specifically in Pristina, the capital city of Kosovo, there has been steady growth in small to medium-sized businesses. Just five years ago there were fewer small eateries, cafes, and shops than what dot the streets today (U.S. Agency for International Development, 2017).

In addition to small to medium-sized businesses, product franchises are an emerging market in Kosovo. Additionally, management-consulting contracts are an emerging market, as foreign companies have increasingly provided service specialization and expertise to businesses in Kosovo (Daniels, Radebaugh, & Sullivan, 2015). Kosovo enjoys lower labor costs than the rest of the region, which serves as an attractor for companies to add Kosovo to their investment portfolio (The World Factbook, 2018). At the same time, research shows that a primary competitive advantage for small to medium-sized businesses in Kosovo is low pricing versus more qualitative strategies such as customer service or loyalty programs (Fejza, Ismajli, & Misini, 2013).

### *4.2 The Role of Government*

Kosovo has undertaken a series of measures in an effort to facilitate business development by eliminating bureaucratic barriers as well as offering incentives for foreign direct investment (Zeqiraj, 2015). Even so, there remain obstacles to business growth in both the capital city and throughout greater Kosovo. Some ways Kosovo can improve the business environment and increase foreign direct investment include continued political stability, reduction of economic and trade barriers, investment security, enforcement of justice, fair competition, institutional support, and protection for foreign investors (Badivuku-Pantina & Zogjani, 2015).

One of the most significant barriers to business development is access to external financing for small to medium-sized businesses. Companies who have a vision for expansion struggle to obtain the necessary credit in order to grow their businesses. However, the government has recently passed a new law authorizing the creation of the Kosovo Credit Guarantee Fund (KCGF) that will operate as an independent and autonomous legal entity, similar to the Deposit Insurance Fund of Kosovo. The establishment of the KCGF will open up access to credit for small to medium-sized companies and will provide financing for businesses in Kosovo (U.S. Agency for International Development, 2017).

#### *4.3 Possible Entry Strategies*

While opportunities for foreign investment abound in Kosovo, companies must determine the most effective way to enter the local market. The U.S. Department of Commerce provides small and medium-sized businesses several market entry strategies that have proven successful in Kosovo. One strategy offered includes visiting Kosovo and meeting with potential partners, government officials, and business associations. This is essential for understanding the local business climate and establishing contacts in Kosovo. This leads to another strategy, which is to establish strong personal ties with people inside Kosovo-another essential strategy for doing business in Kosovo (U.S. Department of Commerce, 2017).

For companies wanting to take advantage of franchising opportunities in Kosovo, there are additional resources to assist franchisors and franchisees in diversifying into global markets. Franchise systems with global ambitions can secure an advantage through the Franchise Trade Mission, a program under the U.S. Commercial Service (a branch of the U.S. Department of Commerce), in partnership with the International Franchise Association (IFA) and Franchise Times (Daley, 2014). As opposed to a company going through the franchise process independently, they could opt to work through the Franchise Trade Mission. This process serves as a more intimate matchmaking service for the franchise sector (Daley, 2014).

#### *4.4 Investment Evaluation*

There are several prerequisites that a company must fulfill prior to making a decision to invest in Kosovo. First, companies should consider both the opportunities and the risks involved in entering the country. There are two specific opportunities to look for - sales expansion and resource acquisition. "Expansion of sales is probably the most important factor motivating companies to engage in international business because of the assumption that more sales will lead to more profits" (Daniels, Radebaugh, & Sullivan, 2015, p. 490). In addition, opportunities for resource acquisition include the evaluation of cost considerations such as labor, infrastructure, ease of transportation, and any potential governmental incentives or disincentives (Daniels, Radebaugh, & Sullivan, 2015). In Kosovo, there is clearly opportunity for sales expansion for small to medium-sized business as well as franchises. There is also opportunity for resource acquisition, as Kosovo enjoys lower labor costs than the rest of the region, and the government continues to develop incentives for business development.

Several potential risk factors must be considered as well, including political risk, foreign exchange risk, and competitive risk. Political risk continues to improve in Kosovo, and even more so as the time from independence increases, and the government continues to improve and develop. Companies must also evaluate the risk associated with currency conversion and the historical and projected future value of those currencies. The official currency of Kosovo is the Euro, which is a stable currency that is currently exchanging at a rate of \$1.18 to the United States dollar (Bloomberg, 2018). Finally, companies must evaluate competitive risk in the context of the local culture and existing business environment. Again, research shows that Kosovo has untapped potential for regional competition and it is more prepared for business development than ever before.

### **5. Conclusion**

As global markets continue to expand and competition continues to hasten, it is imperative that global business managers explore all potential investment opportunities. Global business managers must conduct a comprehensive analysis and evaluation of potential areas for foreign direct investment before making any commitments or investments. As exemplified in this study on Kosovo, global business managers must analyze and evaluate the region thoroughly. Global business managers must study and understand the cultural and social environment. This includes all aspects of culture including religious influences and cultural norms of the society. Moreover, global business managers must study and understand the opportunities and risks that are inherent in the economic and political environment. Finally, global business managers must also study and understand the business and market environment to ensure compatibility and alignment between the region being considered and the organization's objectives.

There is opportunity for significant foreign investment in Kosovo. Since gaining its independence from Serbia in 2008, Kosovo has engaged in nation building, and has worked to incentivize local business development and grow its local economy. This positions Kosovo as a potential contender for foreign investment in the global economy. However, global business managers should consider many factors in the country evaluation process prior to making a decision to invest in Kosovo.

First, there are significant cultural and social factors that affect business in Kosovo. Gender roles have a strong influence on the business environment, as men tend to dominate the business environment. Kosovo subscribes to a relationship-focused culture rather than a deal-focused culture. That is, the citizens of Kosovo place a higher value on people and relationship building than they do on tasks and timelines. These differences between the United States and Kosovo must be taken into account when considering foreign investment in Kosovo. Furthermore, global business managers must appreciate the extent to which religion and Islamic law are intertwined and permeate all levels of society in Kosovo, including business and commerce (Lagace, 2002). Kosovo is a highly collectivist society and this culture of collectivism spills over into the business environment, as building relationships and trust are prerequisite to engaging in business transactions (Daniels, Radebaugh, & Sullivan, 2015).

Second, there are a number of economic and political factors that reflect both opportunities as well as risks for foreign investment in Kosovo. The government has made steady progress to entice business and commerce through incentives, and continues to take steps to attract foreign investors by reducing bureaucratic barriers and red tape. As a result, there are more opportunities for foreign investment in Kosovo than ever before. At the same time, there are also various risks to consider, including political risk and foreign exchange risk. The most significant political risk in Kosovo is the relative infancy of the nation. However, it continues to gain worldwide recognition as a sovereign nation. Imports surpass exports by a ratio of 8 to 1 in Kosovo, and the Gross Domestic Product (GDP) purchasing power parity (PPP) was a modest \$19.38 billion in 2017 (The World Factbook, 2018). Kosovo's citizens are among the poorest in Europe, which could limit the sales potential but also provide for lower labor costs. Moreover, Kosovo has recently entered many economic agreements with other nations and the European Union (EU), indicating that the government is actively taking steps to encourage further trade within the international economy.

Finally, there has been a shift in the business and market environment with significant growth in new and emerging markets in Kosovo over the last few years. "The economy can be maintained only with the invention and re-invention of products and services through steady flow of new competitors with ambitions to become leaders in their respective markets" (Hasani, 2015, p. 281). Therefore, business growth is essential to the continued success of the nation. Growth has primarily come in small to medium-sized businesses as well as in product franchises.

Additionally, management-consulting contracts are an emerging market, as foreign companies have increasingly provided service specialization and expertise to businesses in Kosovo. Kosovo enjoys lower labor costs than the rest of the region, which serves as an attractor for foreign investment (The World Factbook, 2018). Although Kosovo has undertaken a series of measures in an effort to facilitate business development by eliminating bureaucratic barriers as well as offering incentives for foreign direct investment, a main obstacle that remains is access to capital. However, Kosovo has recently passed legislation expanding credit opportunities to small and medium-sized businesses (U.S. Agency for International Development, 2017). Based on current market trends in Kosovo, the outlook for foreign investment looks positive. The business landscape in Kosovo is fertile. Kosovo is open for business.

Limitations of this study primarily relate to the ever-changing nature of the 21<sup>st</sup> century global business environment. Currently, many countries are considering significant changes in global trade policy, which can significantly alter the appeal of foreign direct investment in a particular region relatively quickly. Based on this current study of Kosovo, foreign direct investment in the region is appealing. However, changes in global trade can quickly quash this appeal. Therefore, further and continued research is necessary. Opportunities for future research on this topic include continual monitoring of Kosovo as a potential area for foreign direct investment as well as frequent updates to this analysis and evaluation. Furthermore, future research on other more inconspicuous regions of the world that might prove to be fertile ground for foreign direct investment is suggested.

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