



## SMEs in Albania: Problems and Challenges for Having A Successful and Competitive Position

Albana MADHI

Phd candidate , Lecturer at Faculty of Economy, "A. Xhuvani" University, Elbasan, Albania.

### ABSTRACT

*The business organizations, independently from their size, location or type of economy, they have to face with concurrence. This is evident even for the Albanian business. Nowadays, it is a challenge to have a successful and competitive position. Facing this challenge is a growing phenomenon, due to business globalization, change of economic cycles, level of extension and change of consumer preferences.*

*Dealing with these challenges is very difficult for the SMEs, which operate in all countries, likewise in Albania. The less developed countries and the countries in development, now recognize the importance of developing the SMEs for the country development. Many studies have been carried out by having at their focus the specific characteristics of business organizations, which are unique and an added value for the final consumer. Thus, it is understandable that in all the sectors, the enterprises must know and have it clear that achieving the competitive advantages and being competitive in a global market is the most challenging issue that they have to face.*

*For the Albanian business knowing these challenges and taking measures to deal with them is very important.*

**KEYWORDS : SME, development, challenges, competitive position**

### 1. Importance and composition of SMEs

There have been many arguments pro and cons regarding the importance of SMEs and for the fact that the government must apply or not its policies to support the SMEs in function of enhancing the country economy. Recently, researchers, governmental agencies, non-lucrative organizations (NGOs) and different companies have raised the attention toward the SMEs sector. In the developing countries, especially, the pro-SMEs policies are seen as a strong mean to decrease poverty and to increase the economy. Also, the pro-SMEs policies have been encouraged in the developed countries because they are considered to play an important role for creating new industries, increasing employment, encouraging market concurrence and vitalizing the regional economy. The SMEs are the strongest instrument for growing the country economy and innovation.

Considering the Albanian case, the importance of SMEs is bigger, as far as the concurrence level is getting higher. Furthermore, this sector, that of generating employment and good percentage of contribution in economy, has contributed in increasing the researches and studies regarding the sector profiles, in order to define from what they are affected and to find a solution.

The SMEs consist of the spinal cord of the national economy, are the roots of the economical system of the free enterprises. The development of SMEs is a key factor for the regional development of the country. Furthermore, the growing levels reported by the SMEs have encouraged the governments to include in their sector the creation of a strategy within the economical development programs. Although there exist positive mechanisms for enhancing the creation and function of SMEs, the governments still need to present proper policies to encourage affordable and less expensive loans. Also, they need to create good programs to increase their support. The increase of the SMEs number in the country, leads to the

increase of employment and to the profits per person. While general people get richer, they increase their consumes. The increase of the consume, on the other hand, leads to the opening of new market possibilities, which follows with the creation of more SMEs.

The strong innovation cycle also manages the economical growth. Meanwhile that the number of the SMEs increases, their acknowledgement about products and industry increases, too. Knowledge permits them to regenerate their products and processes by helping them to form a competitive advantage, in order to generate more profits. Once again, the market possibility caught by the SME break-even will encourage most people to start their own SME in order to catch the market possibility.

Besides that, the development of SMEs can help in achieving other development objectives. SMEs can offer goods and services in critical fields of development, such as healthcare and education, and ensure a source of incomes for the people in need. SMEs are often the main reason for the economical growth of a country. However, if the number of SMEs is increasing, the concurrence increases too, which then results in price lowering and/or change of the consumers' base. From this point of view, the existing profits will be damaged and the individuals will get encouraged to start a new SME.

To react toward the growth of concurrence, the firms must lower the prices, increase the promotion of the product, improve the product, add other channels of distribution and/or improve their inner processes.

The statistic definition of a SME usually varies from one country to another. However, the choice to classify a company is based on the number of employees, the value of the assets or value of sale. In Albania, according to the law for SMEs changed in year 2008, the enterprises are classified in micro-enterprises, small enterprises and medium enterprises. The category of micro-enterprises and small-medium enterprises (SME) includes those enterprises where less than 250 people are employed and that realize a profit and/or an annual balance up to Leke 250 Million. A small enterprise is the one where less than 50 people are employed and that realizes a profit and/or an annual balance up to Leke 50 Million. A micro-enterprise is the one where less than 10 people are employed and that realize a profit and/or an annual balance up to Leke 10 Million.

### 2. Situation of SMEs in Albania

The sector of the small business is well represented in Albania and is similar in structure with that of the European Union. The small businesses in Albania ensure the greatest part of work places and with added value, likewise in European Union. The average size of the Albanian enterprise is smaller than the one in EU, with approximately 3.7 employees, compared to the approximately 4.3 employee in EU.

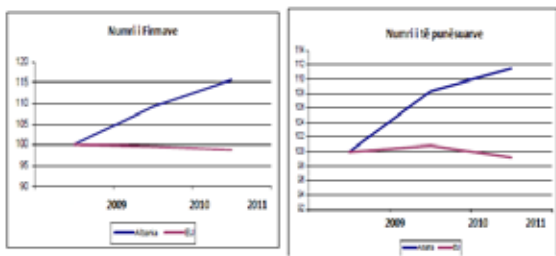
**Table 1 : Trend of SMEs**

Active Enterprises								
Years	2005	2006	2007	2008	2009	2010	2011	2012
1-4 employed	55,976	66,368	71,049	85,380	84,474	91,566	96,429	94,025
5-9 employed	2,406	2,861	3,694	3,655	4,357	4,778	4,952	5,396
10-49 employed	1,722	2,093	2,797	2,762	3,165	3,500	4,164	3,898
50+ employed	547	701	757	725	781	843	958	956
Total	60,651	72,023	78,297	92,522	92,777	100,687	106,503	104,275

The most important sector (55% of all enterprises, 45% of employment) is wholesale and retail. The data accumulated for the period 2009-2011 show a positive trend that is a growing number of the enterprises and workplaces offered by them. There has been a slight fall in the year 2008 and on in the average contribution of the sector of SMEs toward GDP measured. There are no other data at our disposal to evaluate how the Albanian sector of small enterprises has been affected by the financial and economical crises.

The following are the trends for the SMEs regarding the number of active enterprises and number of employed people

**Figure 1: Active enterprises according to years.**



Source: The Economist, 17 September 2005, pp. 69-71

This division is done according to the European Union legislation which considers as small and medium enterprises (SME) the one which have less than 250 employees (before this law in Albania, a SME would have less than 80 employees). Based on this classification, the SMEs represent 99,6 % of the active enterprises (96,20 are micro-enterprises) contributing in the composition of the 72,9 % of GDP and hire 71,4 % of the manpower. According to the figures given by INSTAT, 80.78 % of SMEs are registered as partnership societies and 19.22 % result as follows: Society with Limited Responsibility (89.75 %), public enterprises (5.88 %), joint stock company (2.88 %), other (2.27 %).

From the sector point of view, the system of SMEs is composed by 84.42 % service providers (commerce, hotels, coffee-shops, restaurants, transport and telecommunication, other services) and only 15.18 % from producers (agriculture, fishery, industry and construction).

The private enterprises have started to be founded after year 1990, while an essential growth was signed during the years 2005-2009. After this period, their foundation has decreased significantly.

The sector of SMEs in Albania has a low scale structure. The micro-enterprises occupy approximately 96,2 % of the total enterprises, being higher than the EU average one (92 %).

The moving force of the Albanian economical development is the private sector. This sector is in continuous growth: produces 75 % of the GDP and employs 83 % of the manpower. The contribution of the Albanian SMEs in the economy, as measured by the added value (75 %), is higher than the EU average one (58 %). Following the same model, the contribution of Albanian micro-enterprises in employment is 48 %, which is also higher than the European one (30%).

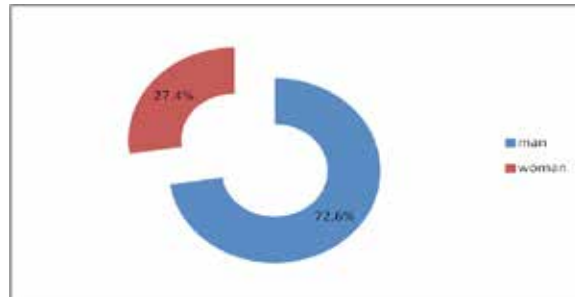
Consequently, the total contribution of the Albanian SME sector in employment is 83 %, which is higher than the EU average one (67%).

The SMEs importance exists also in the distribution of the GDP, in the increase of the employment, inclusion of more women in commerce and increase of self-employment, which have been in economical difficulty. The SMEs produce mainly for the inner market, by using national sources. They produce and develop mainly the inner technologies and capacities. Furthermore, the last tendency in most countries is that the new professionals take care of their business and look for economical independence. As a conclusion, the SMEs have a vital importance for the development and growth of the countries in development and in transition, likewise Albania.

**- Descriptive data**

According to INSTAT, the division of the entrepreneurs of SMEs according to gender is: 72.6% are male entrepreneurs and 27.4% are female entrepreneurs. The number of female entrepreneurs has increased if compared to the one in year 2011, which was 26.9%.

**Figure 2: Owners of SMEs according to gender for 2012**



Source: INSTAT

**- Spread of SMEs according to type of activity**

Based on the type of activity of SMEs operation field, we notice that Commerce (commerce of wholesale and retail) is the field where the businesses operate mostly, measured 43.8 %. This can be explained with the fact that this type of activity presents fewer obstacles and requires a smaller capital to initiate an enterprise. The next is the branch of Hotels, coffee shops and restaurants with 16.1%, other services with 14.1%, transport and telecommunication with 10.2% and industry with 9.8 %. While, the fields where businesses operate less are construction, agriculture and fishery with respectively 4.3% and 1.8%. (Source INSTAT 2012).

From a sector perspective distributed according to the size, as shown in the following table, the sectors of services and commerce are dominated by micro-enterprises and small enterprises, while the sectors of industry and construction are dominated by micro, small and medium enterprises.

In the sector of agriculture and fishery, the enterprises dominate with 94%. We can say that in all the branches of economy, the SMEs are those which dominate in number.

**Table 2: Spread according to size and economical activity for 2012**

Size/Activity	Total	1-4	5-9	10-49	50+
Total	104,275	94,025	5,396	3,898	956
Producer of goods	16,249	12,433	1,746	1,635	435
Agriculture and fishery	1,777	1,687	38	41	11
Industry	10,003	7,956	926	814	307
Construction	4,469	2,790	782	780	117
Producers of services	88,026	81,592	3,650	2,263	521
Commerce	45,273	42,680	1,695	808	90
Hotels, Coffee shops, Restaurants	16,888	15,828	831	207	22
Transport and communication	10,351	9,919	220	168	44
Other services	15,514	13,165	904	1,080	365

Source: INSTAT

**3. Challenges and objectives of SMEs development**

The development of SMEs and their contribution in the long-term economical stability depends on their size and structure, which in the conditions of well-developed markets, permits them to have the flexibility and capacities to get adapted to the conditions of a fierce concurrence.

The most important components which influence in the concurrence

increase of between the SMEs are: access in finance, usage of new technologies, increased level of information means and development of human resources. These factors are results of a study implemented by different authors contracted by the European Commission regarding the factors which have impact on the competitiveness between the SMEs.

The modern economies operate as a complex network of firms, whose competitive position depends especially on their furnishers' efficacy. That is why the SMEs competitiveness affects the competitive position of the economy in general. Their development and performance, in the framework of the markets opening, consists of a real challenge. The strategic priorities for the development of this sector are:

- Harmonizing with the sector strategies which have impact on SMEs sector.
- Ensuring transparency of decision-making, actions and measures taken which affect the business environment.
- Ensuring the fair competitiveness and supporting the integration of SMEs in the international market.
- Developing the technology of information and culture of entrepreneurship.
- Identifying the competitive advantages and getting support from them to achieve the success.

#### 4. Issues and features of SMEs development

##### ❖ Implementing the policies of the European Chart for the Small Enterprises

According to the EU report on October 2006, Albania has reached a slight progress in the field of policies for the implementation of the European Chart for the Small Enterprises. According to the report of self-evaluation of policies in the SMEs field and according to the OECD evaluation index in 10 dimensions, it results that the SMEs policies index in Albania is 2 out of 5, which is the maximal index. This evaluation corresponds to the lowest ones in the region of Western Balkans. The lowest one is presented in the dimensions regarding education and training about entrepreneurship. Also, low index is presented in the dimension of encouraging innovation and use of new technologies.

##### ❖ Schemes of financing

Even though the levels of SME financing have been increased, it is still considered as insufficient to encourage the fast development of the sector. In order to improve the financing climate of SMEs, during the last years, several measures have been taken related mainly with the insertion of the schemes for guaranteeing the loans for SMEs. The guarantee funds in Albania have been applied throughout specific projects to support the SMEs, especially from USAID and during last years from UNOPS, too. These funds have been limited only in supporting with financing in certain fields and categories of SMEs, excluding the greatest part of this sector. Also, the SMEs, especially the new ones, are having difficulties to profit loans from the banks and the loan cost is relatively high. The conditions required by the banks are not favourable for the business. More concretely, the collateral requested is from 120% to 150% and the loan interests are very high. This happens even in the cases when the loan is required for investing in machineries and equipment for a mid-term period.

##### ❖ Internet and electronic commerce

During last years, there has been an increase of internet users in Albania, especially among the new generation, but still it cannot be considered as a huge use of internet from the small and medium producers. The infrastructure generally is considered as very poor and with limited usage, mainly in Tirana and less in the main cities of the country. While, it is almost inexistent in the other cities of the country. According to World Economic Indicators for Albania, it evaluated that there are 24 internet users per 1000 people (year 2004), only 12 personal computers per 1000 people (year 2004) and the internet price is 28,6 USD per month. There is a lack of the legal base regarding the electronic commerce and electronic firm, which has brought an in-existent use of the electronic commerce in the country.

##### ❖ Technology and innovation

In the last years, it has been applied the scheme for the instalment and development of the business incubators, but these schemes have

not had continuance. In Albania, it exists only one business incubator in Tirana and no industrial or technological park has been created yet. In order to increase competitiveness of the Albanian SMEs, various measures for long period must be taken, starting with the preparation of the legal framework, building new institutions, creating an action plan to implement in the future.

##### ❖ Creative enterprise

The transition period has shown that the sources re-allocation in economy is oriented toward the most productive sectors, such as commerce, hotels & restaurants. While from the creative business, the contribution is still small and not identified. The creative industry is based on the individual talent. It is able to hire people and is part of intellectual property. This type of industry in Albania has been based mainly in handicraft and tradition. During the last years, there were born and are developed some new sectors of creative industry and services in Albania, such as: advertising, graphic studios, computer services, music and musical shows, television and radio, architecture studies, design studies, publishing houses, cinematography, etc.

#### 5. Improving the climate of SMEs

Last years in Albania, there have been approved many legislative and institutional reforms to support the development of SMEs. Some of the reforms which have improved the climate and the development of SMEs are: registering the business, permits and licenses, regulative impact assessment/RIA, electronic government, support for the TIK, insurance of financial instruments, trainings, increase of electronic communication, free commerce agreement such as CEFTA, etc. All these reforms have brought concrete results in improving the business climate.

Albania embraced all the principles of the Small Business Act (SBA). The implementation of the principles of this act is one of the most important agreements of the European Commission agenda for the development of the SMEs, not only for the member states, but even for the Western Balkan countries. Compared to other countries of the region, the SME sector is still considered in a critical level if we talk about the enterprise development, growth and innovation, which consist of the basic EU standards for their performance measurement.

The Albanian Government, since February 2011, has approved the Strategy of Business and Technology Innovation for the period 2011-2016. This strategy is focused in four important programs: Fund for Innovation; Innovation Services for the Business; Business Incubator and Program for Clusters Development. The reforms for improving the climate of the business in Albania regarding SMEs are:

- Facilities for business in Albania, according "Doing Business 2012", Albania is ranked in the 82nd position out of 183 countries.
- National Centre of Registration QKR as a one stop shop since September 2007. Registration within one day.
- National Centre of Licensing QKL as a one stop shop since June 2009.
- Reducing the time and the costs for starting a new business. Nowadays, it takes 5 steps instead of 10 and 5 days instead of 36.
- E-Government: (Public Procurement, registering the business, online customs, tax management, licensing, contributions payment).
- Online service of declaring tax payment: Profit tax on [www.ta-time.gov.al](http://www.ta-time.gov.al).
- Online Public Procurement since January 2009.
- Creation and development of the system of regulation impact evaluation RIA in order to ensure the evaluation and integrated analyses of the policies and regulations frame.
- Standardizing and unifying the criteria and procedures for licensing, authorizing and certifying from the central and local authorities.
- Revising the law for the commerce societies to be in harmony with the EU standards.
- Increasing the quality of services toward businesses.
- Avoiding evasion and reducing informality in the fiscal system regarding SMEs.
- Institutional strengthening in central and local level for supporting the business.
- Improving the institutional frame and the dialog public- private

with the aim to ensure the implementation of the coherent policies and measures for encouraging the development of SMEs.

### Conclusions

The globalization of the economy, increase of competitiveness and changes in the outer environment are putting more and more the Albanian SMEs in front of fierce challenges. Under these conditions, the business needs to respond to such global challenges. A good solution would be the understanding of these challenges and acknowledgement of the possible and actual contribution of SMEs in the local economy. The studies implemented show generally that the challenges faced by the firms in relatively small countries (with reduced number of inhabitants and low profits, such as Albania) are more fierce than the ones faced in big countries. The main components which affect the increase of competitiveness between SMEs are: access in financing, use of new technologies, increase of information technology level, development of human resources, use of possibilities, selection of sources, development of capabilities which bring success, etc.

The concurrence and learning how to compete properly continues to be one of the most important issues of the 21<sup>st</sup> century. If the Albanian SMEs want to concur without knowing the importance of the markets, then their future will be unstable and filled with challenges. Besides, if the firms aspire to be successful, the entrepreneurs and their managers should understand that the world economy is changing with a fast rhythm. .

In order to compete with the world economy requests, the SMEs must be courageous, attacking, ready to form their own markets and able to stipulate strong strategies to defend their position. There are a lot of other issues that the firms must face, in order to understand how to achieve the success. This implies changes in culture and demographic conditions, political, legal and commerce situation.

The success of a small business is decisive for the Albanian economy. The economy has passed through different phases (ups and downs) and now the researchers are focused more in finding the factors of success. This would make possible the selection of resources, catch of possibilities, development of capacities which bring success in a long term. In the literature, there can be found three critical components for the firm strategy and success:

Firstly, the strategy must be in compliance with the conditions of the competitive environment.

Secondly, the strategy must define realistic requests for the firm resources.

Thirdly, the strategy must be implemented carefully. (Pearce & Robinson, 2000).

In few words, the next way to become successful is defining the competitive advantages and distinguishing competences presented by the SME and analysing these competences.

The Government policies are reviewing the inclusion of stimuli and benefits for the sector. The projected mechanisms have been adapted to create a new role for the SMEs.

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