

## SME'S ROLE ON ECONOMIC DEVELOPMENT OF ALBANIA AND THEIR PROBLEMS DURING 2000 - 2012

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### Abstract

#### General overview of the topic

SMEs are the soul of the economy, responsible for the innovations and competition, the driving force that brings diversity among businesses, which adds employment and incomes, the most important pillars on which is founded the prosperity of modern Europe. Albania has made great strides in opening a business quickly, with low cost, reducing administrative barriers to obtaining licenses, tax system, etc., but there is still a critical level on innovation, entrepreneurship development, which are the basis of EU standards and indicators to measure their performance.

Aim of paper: is to clarify the situation, problems and to describes the conditions of doing business for SMEs in Albania for the period 2000 - 2012.

#### Material and working methodologies

Method of the study is data, figures and information collection from different sources, their processing, writing the discussion and under that basis drawing conclusions and further formulation of recommendations.

#### Results and main conclusions

Although the climate of doing business in Albania has improved significantly, development of the SMEs is below average. The main challenges to improve the competitiveness of SMEs remain the improvement of the investment climate, law enforcement, corporate governance capability, etc. Major gaps remain improvement of human resource management, technological capacity, management style, cost calculation systems, marketing, focusing on clients, human resource development, etc.

**Key words:** SME, economy, development, problems, integration

### Description

Methodology of the study was data, figures, facts and information collection from various sources, mainly primary, selection and their further processing to achieve an initial draft. Further this material has been revised several times until a final version was realised, and on its basis conclusions were extracted and under the basis of conclusions recommendations were draw.

### Findings

Albania in recent years have made great strides on making business, opening a business quickly and with low cost, in regulatory reform to reduce administrative barriers obtaining licenses, in tax system by reducing the tax burden, etc, but, compared with other countries in the region, in the SME-s sector is still considered in a critical level mainly on business development and innovation, which are the basis of EU standards and indicators for measuring SME-s performance. Although the climate of doing business in Albania has improved significantly in recent years, development of the SME-s is below average. The main challenges for improving the competitiveness of Albanian SME-s remain the improvement of the investment climate, law enforcement, corporate governance capabilities, etc. Major deficiencies in the performance of Albania towards regional integration and wider in the EU in relation to the development of SME-s remain the improvement of human resources management, improving technological capacity, improved management style, management effectiveness, financial control and cost calculation systems, marketing, and focus on the clients and human resources development, etc. These are the guidelines for improving future work with SME-s in Albania, which are the lessons learned, key success factors and a perspective for a sustainable development.

### Introduction

SME-s are the soul of the economy. In all countries of the world they are responsible for innovations and competition

as the driving force of the various sectors of the economy, two elements that bring diversity among businesses, which adds even more diversity, employment and community income. Enterprises are one of the most important pillars on which is founded the prosperity of modern Europe. SME-s are the engines of economic growth and wealth creation in Europe.

As with all types of businesses, SME-s have their advantages and problems. These advantages and problems are associated with how to start a business, specialization and diversification of products and services, how these firms respond to market demands, costs associated with these types of businesses, etc.

Albania in recent years has made great strides about making business in opening a business quickly and with low cost, regulatory reform to reduce administrative barriers to obtaining licenses, the tax system by reducing the tax burden, etc, but, compared with other countries in the region, the sector of SME-s is still considered in critical levels about business development and innovation, which are the basis of EU standards and indicators for measuring their performance.

Although the climate of doing business in Albania has been improved significantly in recent years, development of the SME-s is below average. The main challenges for improving the competitiveness of Albanian SME-s remain the improvement of the investment climate, law enforcement, corporate governance, management capability, etc. Major deficiencies in the performance of Albania towards regional integration and wider in the EU in relation to the development of SME-s remain the improvement of human resources management, improving technological capacity, improving management style, management effectiveness, financial control and cost calculation systems, marketing, and focus on the clients and human resources development, etc.

These are the guidelines for improving future work with SME-s in Albania too.

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**Discussion**

1. The role of SME-s in different countries of the world

SME-s are the soul of the economy not only in Albania but in the whole world (1). SME-s in almost all countries of the world are responsible for innovations and competition as the driving force of the various sectors of the economy. Innovation and competition make SME-s to be more and more diverse and it is this diversity that adds even more employment and income communities.

Enterprises are one of the most important pillars on which is founded the prosperity of modern Europe. SME-s are the engines of economic growth and wealth creation in Europe. In Europe there is still an open debate about what are SME-s. For example, in Germany SME are those private entities that have less than 255 employees, while in Belgium up to 100. For this reason, in July 2011 the European Commission launched a consultation on the definition of SME-s. In Europe there are three broad parameters to classify private entities where micro entities are those firms with up to 10 employees, SME firms with up to 50 employees and medium-sized firms that have up to 250 employees (2). Also, SME-s are considered those companies whose income is 10 - 15 million or a balance sheet total of 10 - 43 million.

In the U.S., the SME Administration determines them on the basis of industries, ownership structure, revenue and number of employees (3). In Canada, SME-s are those manufacturing businesses that have fewer than 100 employees and businesses services that have less than 50 employees, and medium enterprises are those which have up to 500 employees. In New Zealand, SME-s are those companies that have less than 19 employees, in Nigeria 11 - 300 employees in Israel to 50 employees, while medium-sized firms are those that have 50 to 250 employees, in Australia are SME-s those firms with up to 15 employees (4).

	Australia	USA	EU
<b>Micro</b>	1-2	1-6	<10
<b>Small</b>	<15	<250	<50
<b>Medium</b>	<200	<500	<250
<b>Large</b>	<500	<100	<100

**Table 1.** Size of firms in Australia, USA and Europe (4).

Company category	Employees	Turnover	Balance sheet total
<b>Micro</b>	< 10	≤ € 2 m	≤ € 2 m
<b>Small</b>	< 50	≤ € 10 m	≤ € 10 m
<b>Medium</b>	< 250	≤ € 50 m	≤ € 43m

Company category	Employees	Turnover	Balance sheet total
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**Table 2.** Firms category based on their size in Europe (5).

2. Advantages and problems of SME-s in the world

As with all types of businesses, SME-s have their advantages and problems. These advantages and problems are associated with how to start a business, specialization and diversification of products and services, how these firms respond to market demands, costs associated with these types of businesses, etc.

• 2.1 Advantages of SME-s in the world

Compared to medium and large enterprises, SME-s can start with the lowest cost. Also, another advantage is that these types of businesses can be initiated on the basis of part time work, doing any other job in the public or private sector and parallel to a business activity, while this activity to grow and not to leave time for other work. One of the advantages of SME-s recently is their specialization in niche markets. It is noted that many SME-s find it easier to penetrate in a small market with their specific products than large firms. SME-s respond to market faster, because as small firms with few employees and with focused resources is easier to adjust to market changes compared to large firms which when face the change in the market situation they have more difficulties to adapt in the short term.

• 2.2 Problems of SME-s in the world

One of the main problems in the world today about SME-s is undercapitalization, which comes mainly from poor planning business and economic conditions. Poor planning has to do with business and entrepreneur skills by way how firms use and manage human resources, size and management of financials, inputs and outputs in the venture, quality of decision-making in high levels, etc.

Major problems for SME-s are the costs of insurance, energy, taxes, etc. Almost in every country in the world has been noticed that in general the cost of social security and health of employees is increasing and the cost of insurance and property business is also growing. Energy prices of all kinds in the world are growing and tax rates as well. This makes the SME-s to increase the prices of their products and services, which ultimately passed on to final consumers.

Another problem of SME-s is called the "Entrepreneurial Myth" or E-Myth, according to which people believe that a person who is an expert in a particular field may be able to operate a business in which he is not an expert. This is not actually true. To run a business in the normal manner required skills and not just the fact of being an expert in one direction or another.

3. Conditions of doing business in Albania.

Albania, in connection with making business, in recent years has made great strides in some areas, such as:

1. In opening a business quickly and at low cost
2. Regulatory reform to reduce administrative barriers to obtaining licenses
3. In the tax system by reducing the tax burden,
  - The flat tax of 10%
  - Reduction of social security tax from 20% to 15%.

By comparison with other countries in the region, the SME sector are still considered in critical level especially in business development and innovation, which form the basis of EU standards and indicators for measuring their performance.

Tax administration relations with the business community have been constantly in the focus of this administration itself but also as a repeated request from the business community itself. One of the main concerns that have increased the importance of this relationship is the behavior of the tax administration and the relationship with the business. It should be noted that considerable progress has been made in this direction by consolidating the dialogue with business tax administration and its involvement in joint structures, such as Appeal Committee of Taxation, etc. A very significant indicator in improving the dialogue is the tradition on working together on Fiscal Package. The business community is very important actor in this process. He is not just part of the final discussion of the fiscal package, but is an integral part of the process every step of the preparation of the project.

Also, in recent years it is evident that there is a continuous improvement in all aspects of infrastructure, in line with improvements in the legal framework. Free Trade Agreements with countries in the region have enabled a greater access to the market. Workforce in the country is a young, dynamic and educated. There is a legal framework that protects private property and intellectual needs completion and implementation. For registration and licensing of businesses has created one - stop center (One – Stop - Shops). Online system works for the declaration and payment of taxes. There is a public procurement portal online.

Albania offers competitive cost compared to West European countries. Minimum wage in Albania is about 21,000 Lek (about 140 euros) and average wage (in public and private sector) is about 38,000 Lek (about 257 euro). For the period 2000 - 2009 average GDP growth has been around 6% figure and the following years there has been a positive growth of 3.3% of GDP, although the neighboring countries had economic and financial crisis situation (6 , 7).

#### 4. The role of SME-s in the development of the Albanian economy

Albania is moving towards the European Union and for this is needed modern, innovative and competitive entrepreneurship spirit, healthy business environment for investments and employment.

Currently in Albania are operating about 105 thousand small and medium enterprises, representing 99.9% of the total number of enterprises, employing around 82% of all employees and contribute to over 80% of GDP, compared with 2009 when SME-s contributed to 73% of GDP and employed about 71% of the entire labor force in the country (8)

Albanian market has been dominated by micro companies in number, annual turnover and in the total value added, but SME-s are becoming more productive. Economic efficiency increases with the size of the undertaking.

In terms of sector perspective, most of SME-s are concentrated in the retail sector. Trade and service sector has a dominance of micro and small enterprises, while the construction industry and has a significant dominance medium businesses.

There is a high concentration of SME-s in Tirana, Albania's capital, in most areas of Middle Albania and in coastal areas. More than half of SME-s are operating in the Tirana-Durres corridor, which in recent years has emerged as a potentially powerful economic zone. Other areas with strong presence of SME-s are the cities of Korca, Fier and Vlora. In northern areas of the country in fact has a weak activity of SME-s.

Regarding SME-s Albania compared with other Balkan countries is:

- Fourth on the formation and training
- The first in low cost start-up business
- Second on improving legislation
- Third on the availability of skills
- The fifth on the benefits of EU market
- The second in incentive policies in the field of taxation
- Fourth on access to finance
- Sixth on strengthening the technological capacity
- The fifth on successful business models and top class business support
- Fourth for the development of more effective representation enterprises interests (7)

#### 5. Projects to support SME-s in Albania

During the last years to support the development of SME-s several projects are implementing such as:

1. Italian program to support SME-s through a soft credit line of 25 million Euro and guarantee fund of 2.5 million Euro.
2. Program to improve the management of companies TAM / BAS, IPA.
3. Project for the functioning of the National Licensing Centre as a one stop shop.
4. USAID project to improve the competitiveness and productivity of Albanian SME-s in 10 major cities of the country.
5. Competitiveness Fund Program of SME-s exporting.
6. Export Credit Guarantee Fund (8)

#### 6. Problems of SME-s in Albania for the period 2000 - 2012

For SME-s to be competitive will not mean necessarily to be less costly, but to have a "better" fair value option for customers, buyers and consumers and to take better positioning between competitors. This requires not only providing products and services to customers, but the delivery and the serving of "packages" with the best benefits for customers, providing solutions to address customers' needs and meet their expectations (7).

In those over 20 years of market economy some problems dealing with the conception of SME-s has been notices. They are seen only as urban phenomenon. In Albania, never until now has been mentioned in any case the term "suburban areas", which are actually the square of the work of SME-s. At the center of Tirana and major cities operate large firms with their large offices, while in rural areas small farms predominate. Between urban and rural areas there is

a great suburban area where small and medium business predominates.

Albania lacks instruments to stimulate the development of SME-s, although there are some projects for this purpose.

From my personal experience with SME-s, there is not any active cooperation between universities and SME-s.

SME-s in Albania have been credited too little and with difficulty by the banking sector because they are considered high-risk borrowers, because they do not have enough assets, do not have high capitalization and their business plans are not competitive.

In business and management systems there is a great need to improve the business planning, management systems and management of human resources. Between Albanian SME-s there is a lack of awareness about the importance of strategic planning and business, as key tools in the company.

About systems and technology operations Albanian SME-s have a lack of quality management systems, structured and documented business operations, to ensure an effective methods, techniques, control functions, as well as other functions and technology operations by the owner / manager to other managers and staff transfer. Also in this issue, Albanian SME-s need to start thinking on achieving Quality Management Systems standards known abroad such as ISO and HACCP (7, 9). This prevents the Albanian SME internationalization as another problem or deficiency, in the context of integration in regional and wider European structures.

There is a general need among enterprises to improve management techniques and to use available tools for accounting and budget based on software and to become more sophisticated in the calculation of costs, all of this related strongly with financial and administrative systems. Cost analysis enables the company to assess whether a business or a specific product is or not profitable and cost control can be seen as a "link" between production planning, marketing and sales (7).

For client systems and a large portion of sales of Albanian enterprises rely on the owners / managers to plan and implement sales activities or foreign buyers to supply international markets. The future requires sophisticated sales strategy and staff. There is a great deficiency about marketing between Albanian enterprises. Strong centralization of marketing activities to the hands of owner / manager shows that there is a need to improve key management capabilities within enterprises, which is part of an integrated marketing strategy.

Export strategy of Albanian firms has many shortcomings and it seems mostly to those SME-s that have already entered the path of export, where internal sources have not been able to take steps towards international markets. Without these skills Albanian SME-s will find it very difficult to cope successfully with clients, standards and international prices (7), viewed in the context of integration. About communication skills owners / managers of SME-s consider verbal skills as important and it relates to the management of human resources, particularly in relation to employment and the management and daily staff

orientation (7).

About technical skills, three of them are currently the most important: the operation of equipment or machinery working, innovation and technology operations and applications of electronic tables, all part of an integrated management system for production.

In relation to supervisory and managerial skills on Albanian SME-s is evident that all important business actions and decisions are concentrated to the owner / manager, and that this is supported in all aspects of management mainly through verbal communication. This acts as a barrier to the overall development of Albanian enterprises as preventing the use and development of human resources. (7).

### **Conclusions**

Although the climate of doing business in Albania has improved significantly in recent years, development of the SME-s is below average. The main challenges for improving the competitiveness of Albanian SME-s remain the improvement of the investment climate, law enforcement, corporate governance, management capability, etc.

One of the main deficiencies in the performance of Albania towards regional integration and beyond the EU remains the development of SME-s, which need significant improvement in human resource management and technological capacity improvement.

As emergency for Albanian SME-s still remain the improvement of management style, management effectiveness, financial control systems and cost accounting, marketing and focus on clients and human resources development.

Most SME-s doesn't have and doesn't work with written and documented systems management, including international standards of quality. In these enterprises there is a lack of management and structured forms of communication, including written policies of the enterprise, strategies, procedures, chart, reports, job descriptions, etc.

### **Ecommendations**

Increasing efforts by Albania to remove barriers to investment, to ensure the rule of law, property rights, contract enforcement, to increase the quality of products for export and for improving the quality of human capital remain the core on improving the situation in relation to SME-s. To all businesses and in general with SME-s in particular, moral and ethical obligations remain better management of natural and human resources to have long-term sustainable development.

Albanian SME-s need to strengthen the relationship between the owner of the company and management / workers through improved communication and application of procedures, regulations and documented processes in all aspects of doing business.

Successful management of SME-s can be significantly improved if it is closely related to the use of accounting and budget based on sophisticated software to calculate the costs, because through cost control functions and corresponding management techniques may take more

proactive methods to reduce costs, make strategic decisions on prices and manage the production and business more effectively.

Improving sales strategies and marketing in general and increasing export opportunities should be realized through sophisticated personnel, increasing the value and price of

products and services to be more competitive in international markets, this in conjunction with improving skills in business communication and negotiation skills, in parallel with the improvement of the mode of operation of the equipment / machinery work, innovation and application of an integrated management system for production.

**Appendices**

Year of creation	Total	Production	Agriculture	Industry	Construction	Services	Trade	Hotels	Other services
<b>Total</b>	97.436	15.408	1.627	9.686	4.095	82.028	43.425	15.108	13.543
<b>2010</b>	13.629	2.020	606	1.011	403	11.609	5.780	2.689	1.702
<b>2005 – 2009</b>	48.993	7.357	762	4.509	2.086	41.636	21.608	7.898	7.282
<b>2000 – 2004</b>	19.349	2.955	150	2.168	637	16.394	9.278	2.631	2.347
<b>1995 – 1994</b>	8.713	1.748	54	1.130	564	6.965	3.974	923	1.126
<b>-1994</b>	6.752	1.328	55	868	405	5.424	2.785	969	1.086

**Table 3.** Number of SME-s in Albania according to sectors 1994 – 2010 (E. Hyna, E. Ceko, Impaktin i legjislacioni fiskal te SME-të në Shqipëri për periudhën 2005 – 2012. International VII Conference of Albshkenca 28 – 31 August, Skopje).

Year of creation	%	Production	Agriculture	Industry	Construction	Services	Trade	Hotels	Other services
<b>Total</b>	100	15.8	1.7	9.9	4.2	84.2	44.6	15.5	13.9
<b>2010</b>	14	2.1	0.6	1.0	0.4	11.9	5.9	2.8	1.7
<b>2005 – 2009</b>	50.3	7.6	0.8	4.6	2.1	42.7	22.2	8.1	7.5
<b>2000 – 2004</b>	19.9	3.0	0.2	2.2	0.7	16.8	9.5	2.7	2.4
<b>1994 – 1999</b>	8.9	1.8	0.1	1.2	0.6	7.1	4.1	0.9	1.2
<b>-1994</b>	6.9	1.4	0.1	0.9	0.4	5.6	2.9	1.0	1.1

**Table 4.** Weight of SME-s in Albania according to sectors 1994 – 2010 (E. Hyna, E. Ceko, Impaktin i legjislacioni fiskal te SME-të në Shqipëri për periudhën 2005 – 2012. International VII Conference of Albshkenca 28 – 31 August, Skopje).

Year of creation	Total	Gropued according to number of employees				
		1	2 - 4	5 - 9	10 - 49	50+
<b>Total</b>	97.436	61.098	27.430	4.605	3.465	838
<b>2010</b>	13.629	9.085	3.895	495	143	11
<b>2005 – 2009</b>	48.993	32.592	13.014	1.909	1.238	240
<b>2000 – 2004</b>	19.349	11.529	5.858	1.025	766	171
<b>1995 – 1999</b>	8.713	4.410	2.721	719	680	183
<b>-1994</b>	6.752	3.482	1.942	457	638	233

**Table 5.** Grouping of businesses according to the number of employees (E. Hyna, E. Ceko, Impaktin i legjislacioni fiskal te SME-të në Shqipëri për periudhën 2005 – 2012. International VII Conference of Albshkenca 28 – 31 August, Skopje).

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