SMALL AND MEDIUM ENTERPRISES IN ALBANIA AND FACTORS IMPACTING THEIR GROWTH

Arjona Spahiu
Agricultural University of
Tirana, **ALBANIA**

Ana Kapaj
Agricultural University of
Tirana, **ALBANIA**

ABSTRACT

SMEs are considered as the general motor for the economy of a country. They are a source of employment, competition, economic dynamism and innovation; stimulate the entrepreneurial spirit and develop skills. In Albania the sector of small and medium enterprises is very important and includes businesses from 1 to 250 employees. It contributed 67.7% to the country's economic growth in 2013 and remains the largest employer. By sector, small and medium-sized enterprises are headed by trade, accommodation and restaurants, to continue with manufacturing and construction. The development of new SME brings new people to the workforce, adds new taxpayers, products and services to domestic, regional and global markets. Literacy review shows that there are many factors that determine the success and growth of a firm. Sales have been identified as a key factor in the survival of a firm and its development in a competitive environment. Considering the important role of the SMEs in the economic development of a country this study gives a short view of the SMEs activity in Albania and analysis the main factors that affect the SME's sale. In order to obtain the result a hypothesis is developed in this regard. A quantifiable research method is carried out to test the hypothesis of the study in order to have a complete and accurate feedback. Specifically, the study uses survey of SMEs located in the area Tirane-Durres of Albania. Questioners are completed by the representatives of SMEs. The SME selected in the study are specialized and operates in the agriculture sector.

Keywords: Factors, SMEs growth, Sales, Albania.

INTRODUCTION

SMEs play an essential role in increasing employment in the country. Apart from providing employment opportunities and income for a large number of people, they also form the basis of technological innovation and support the regional development (OECD SME and Entrepreneurship Outlook Edition). Encouraging SME development should be done not only because they are small but because they have the capacity to be efficient, innovative and able to compete in the national and international market. This study aims to highlight the importance of the SMEs in economy development and will be used as a basis for any future study that will examine the relationship between SMEs and factors affecting their performance.

LITERATURE REVIEW
SMEs and their Role in the Economic Development of the Country

SME development is an issue that has been addressed by many authors who have put emphasis on the role, challenges and difficulties faced by SMEs. The Organization for Economic Co-operation and Development (OECD) reports that more than 95% of enterprises in the OECD area are SMEs and are the main source of employment.

Ayyagari, Demirguc-Kunt and Vojislav (2011) stated in their paper that SMEs have a major role in creating new jobs, thus reducing the number of unemployed.

SMEs are called the backbone of the real economy. According to a study conducted by Deutsche Bank 2014, about 99.8% of business in Europe is SMEs. SMEs with 86.8 million people make up about 67.8% of private sector employment. The largest contribution of European SMEs in terms of employment and value added is in the construction sector as a driving force for job creation and growth in the EU.

According to the "FinScope" survey (developed for SMEs in 2012 by the Ministry of Small and Medium Enterprises and Development Cooperation with funding provided by the World Bank-led Multi Donor Trust Fund), several important conclusions were reached on the role and SMEs. According to this survey, SMEs provide employment for more than 2.9 million employees and contribute 60% of Gross Domestic Product. SMEs in addition to providing employment in the country also offer Tailor-made products in size and the right amount for consumers. The proximity of the SME market affects the low costs of marketing and transportation, thereby bringing products at competitive prices in the market. SMEs are flexible and innovative, thus making it more convenient to adapt to the changing production techniques and market preferences.

Factors Affecting SMEs Growth

Different theoretical models have been established to determine the factors influencing the growth of firms. Many authors have overturned the conclusions of the so-called Gibrats'Law that the size of firms and their growth rate are independent of each other and the size change of firms is casual and has no effect on the firm's growth.

Beccheti and Trovato (2002), after analyzing the Italian manufacturing industry, argued that in the growth of the business apart from the size and age of the firm, a special role has also the external financing impacts.

The Investment Climate Survey (World Bank) indicates that funding improves the firm's performance. It not only facilitates market entry, growth of companies, and risk reduction but also promotes innovation and entrepreneurial activities.

Morone and Testa (2008) in the study conducted in a sample of 2,600 SMEs concluded that new firms are more likely to have a positive growth and that the enterprise turnover growth is positively linked to firm size, product innovation, process innovation, and organizational change.

Several studies have identified funding as one of the driving factors for an appropriate economic environment. The World Bank and International Financial Cooperation (IFC) have ranked economies according to their facilities of doing business whereby business ability to take credit is considered a very important criteria .

Good financial system approach also enables firms to achieve a greater balance of scale by enabling them to capitalize on growth and investment opportunities (Beck, Demirguc-Kunt and Maksimoviq, 2006).

SMEs Economic Activity in Albania

Small and Medium Enterprises in Albania, occupy 99.6% of the total number of active enterprises. The SME activity in Albania is focused on the local market and very little relies on the development of exports.

According to the latest data published by INSTAT in "Enterprise Register 2015", the number of active economic enterprises for 2015 is 152,288, increasing by 26% compared to 2014. Enterprises with economic activity trade, accommodation and food service are dominant in the domestic economy, with 50% of total enterprises. The sector that occupies the smallest share is that of information & communication with 2% of the total of active enterprises in the country (depicted in the figure below).
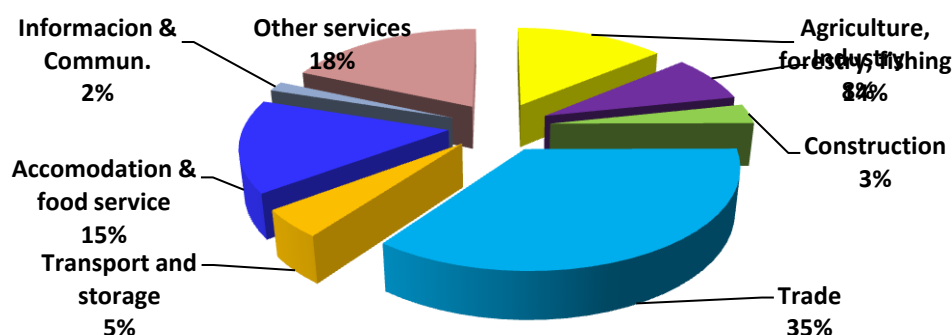
Source: Business Register- INSTAT 2015

Referring the sectoral activity the SME system for 2015 consists of 75% service providers (trade, transport and storage, housing and food service, information and communication, other services), and only 25% of the good producers (agriculture, forests & fishing, industry, construction)

METHODOLOGY

This paper aims to identify and asses the factors that affect the SMEs growth. The below hypothesis is developed for addressing this issue.
Hypothesis: "*The growth of SMEs is affected by such factors as initial capital, external financing, firm age, firm size, internationalization*
The information for testing the hypothesis is based on the analysis of primary data which are collected through questionnaires delivered to SME's representatives. The questionnaire developed in this research is conceived in two parts: The first part of the questionnaire provides general information on SMEs activity and the second part provides information on the role of banks in SME development.

The list of SMEs selected to fill out the questionnaires is provided mainly by banks selected in this study which have financed SMEs with loans. The number of SMEs selected for the questionnaire is 55. They are specialized and operates in the agriculture sector and are located in two cities of Albania respectively in Tirana and Durres.

Hypothesis seeks to study the impact of some variables, respectively, the impact of lending, *firm age, firm size, internationalization* and *initial capital* on the independent model variable

that is the *growth of SMEs*. Since we have more than one variable, the model chosen to validate this hypothesis is the regression multi-factorial model.

-Dependent Variable: Annual Sales of SMEs **[Sl]**

-Independent variables: **Lending [Le], Age [AG], Size [SZ], Internationalization [IN], Initial Capital [IN].**

The regression model:

$$SL_i = \beta_0 + \beta_1 * (LE_i) + \beta_2 * (AGE)_i + \beta_3 * (SZ_i) + \beta_4 * (IN_i) + \beta_5 * (IC_i) + \mathcal{E}$$

➢   **SL**: The annual sales of businesses (SMEs) expressed in LEK currency, measured as the average of the years included in the study. Sales are analyzed for years after bank loan is received

➢   **LE**: Loans issued by commercial banks denominated in LEK currency for the respective firm from 2010 up to 2015.

➢   **AG**: Age of firm: the number of years that each firm has developed the activity.

➢   **SZ**: Size of firms defined by the number of employees.

➢   **IN**: Internationalization of firms: The Dummy variable is equal to 1 if SMEs have developed the export strategy and if not this variable is equal to 0.

➢   **IC**: Initial capital of the firm at the moment it starts its activity expressed in LEK Currency

➢ β_0: the intercept of equation

➢ β_{1-5}: the coefficients; the respective influence of any marginal change of the independent variables in SME's sale growth

➢ $\mathcal{E}$: the error term

➢   **i**: firms taken in the analysis where i = 1,2,3, .. 55

RESULTS

The results of the regression model used are given in the tables below:

Table 1. Regression statistics

Regression Statistics	
Multiple R	0.808582
R Square	**0.653805**
Adjusted R Square	0.618479
Standard Error	0.627372
Observations	55

Table 2. ANOVA

	df	SS	MS	F	Significance F
Regression	5	36.42288	7.284575	**18.5077**	**2.77E^{-10}**
Residual	49	19.28621	0.393596		
Total	54	55.70909			

Table 3. Regression coefficents

Factors	Coefficients	Standard Error	t Stat	P-value
Intercept	-0.14265	0.275917	-0.51699	0.607487
Lending	0.831506	0.147375	5.642093	8.29E-07
Initial Capital	6.040014	3.410014	1.776947	0.080279
Age	0.152731	0.049066	3.112762	0.003091
Size	0.201715	0.166424	1.212051	0.231305
Internationalization	0.306649	0.025301	12.11807	0.015397

DISCUSSION

✓   The generated model results consistent and important F=18.5077, p-value= $2.77E^{-10}$
✓   The explanatory variables (lending, initial capital, age and internationalization) results important (p-value= 8.29E-07, p-value= 0.080279, p-value= 0.003091, p-value= 0.015397)
✓   The explanatory variable (size) didn't result important (p-value= 0.231305)
✓   65.38% of the variation (R^2= 0.653805) of the dependent variable (sale) is explained by the explanatory variables.
✓   The relation between variables is positive ($ß_{1-5>}0$)

CONCLUSIONS

Small and Medium Enterprises (SMEs) are important contributors to the well-being and development of the economy providing employment opportunities and income for a large number of people. Literature review in the thesis highlighted the role of SMEs in economic development and employment as well as the factors impacting the SMEs growth.

Despite the literature review on factors effecting the SMEs growth, this study identified the factors affecting SMEs growth for the case of Albania indicating that *financial access from commercial banks, firm age, internationalization* and *initial capital* influence *SMEs growth*. The regression model applied to obtain the results showed a positive relationship between lending by commercial banks, firms age, firm size, internationalization, initial capital and growth of SME sales

REFERENCES

Albania Legislation/ Law no. 10 042, date 22.12.2008, article 4
World Bank, IFC (2011) *"Economy rankings"*
Morone and Testa (2008) *"Firms growth, size and innovation an investigation into the Italian manufacturing sector"*
Leonardo Becchetti and Giovanni Trovato (2002) *"The determinations of growth for Small and Medium Firms"*
Thorsten Beck and Asli Demirguc-Kunt (2006) *"Small and Medium-Size Enterprises: Access to Finance as a Growth Constraint"*
Philip Relander (2011) *"Gibrat's law revisited - A study on Gibrat's law with models of industry dynamics*
Ministry of Small and Medium Enterprises and Cooperative Development in conjunction with FinMark Trust and the World Bank (2012) *"FinScope SME Survey Zimbabwe 2012"*,

"OECD SME and Entrepreneurship Outlook Edition (2005)
SMEs in Albania, OECD: Financial support to them [Accessed on 12th May 2016] Available from World Wide Web: https://businessmag.al/sme-te-ne-shqiperi-oecd-mbeshtetje-financiare-ndaj-tyre/
"Business register 2015", Available from World Wide Web *www.instat.gov.al*