

Assessing export challenges faced by albanian SMEs

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Abstract

Nowadays, small and medium-sized enterprises (SMEs) are increasingly being recognized as a vital part of a country's economy. Albania is a country in transition and after the communist era, has been on a difficult path to overcome many social, political and economic difficulties. The purpose of this paper is to analyze and investigate the SMEs in Albania and the levels of exportation as an important element for the EU integration. This study is mainly of investigative and explorative nature, aiming to conclude which industry sector exports the most and to highlight the main partners (in terms of nations) and also to identify or flag the perceived barriers that Albanian companies classify as impediments to exporting goods. The instrument used was a questionnaire of 50 items and the participants were Albanian organizations (N = 163) from different sectors of the economy. Data were analysed using IBM SPSS Statistics 20. The results indicate that the main three barriers that impede them from exporting are: the lack of planning about exportation, the difficulty of finding new clients in EU and the high levels of the accompanying risk. For 30% of the tradable sector, the difficulty of finding new clients in the European market was considered as one of the most challenging, anyway, it should

be noted that only 36% of this sector plans to export in the next 1–3 years. Despite their perception towards barriers, most of the organizations were planning to export in the future.

***Key words:** Export, Albanian SMEs, Barriers, European Union, Financial aspect, Trade Balance*

Introduction

Europe is the world's largest market, this continent offers many business opportunities, but the competition is very strong. If a business strives to be successful it must be well prepared before facing buyers. In total, the Western Balkans in 2016 had 1.3% of the total marketed in Europe (European Commission, 2017). However, the individual contribution of states was very low: Albania (0.12%), the Republic of Macedonia (0.24%), Bosnia and Herzegovina (0.26%), Montenegro (0.03%), Kosovo (0.03%) and Serbia (0.59%).

Albania has been a successful development story in many aspects. Over the last two decades the country has made galloping moves to establish a credible multiparty democracy and market economy, and is rapidly integrating into the international and European community. Since 1998, the Albanian economy has experienced rapid and sustainable economic growth and unlike other Balkan countries and many European Union countries, it has also positively increased growth during the global economic crisis (albeit with significant reductions in recent years) during 2009–2010. Up to nowadays, the impact of the crisis has been felt mainly in reducing the level of remittances and trade.

Albania's performance and challenges in the European integration process is a field of high interest to many scholars (Abazi, 2013; Laci & Hysa, 2015; Spaho, 2012; Turan & Bala, 2014). Membership in the European Union has been the national key and strategic target of Albania since the early 1990s. Albania's EU integration challenges are different and do not necessarily only relate to the country's progress in consolidating democracy, rule of law, and market economy. Albania has been a potential candidate for being part of the EU membership since 2009, later in June 2014, the European Council granted Albania candidate status. Albania has to accomplish five key priorities for the opening of accession negotiations in order to get the membership status of EU (European Commission, 2016). These five key priorities generally have to do with overcoming previous political polarization, the well-functioning of the juridical and political system, reducing the level of corruption, the intellectual property law, etc. Albania will need to put more efforts on the overall preparations for implementing the EU *acquis* (European Commission, 2016).

It is important to mention that Albania is moderately prepared in developing a functioning market economy. Some progress was made in improving the budget balance, fighting informality and reforming the electricity sector (European Commission, 2016). It is quite evident that Albania's economy had an accelerated growth and improvement in the market situation, but anyway the unemployment is still high. The public debt continues to be high, meanwhile the investments are still continuing. The financial sector is generally stable, but the bank sector is still burdened with bad loans and credit is growing slowly. The ongoing justice reform is expected to have a material impact on the business environment (European Commission, 2016).

In this paper, integration perspective is seen in the view of the economic criteria, focused on the level of export. Barriers that different companies perceive in competing on the European market are analyzed and also their intention of exporting in the future is measured. It's obvious that this integration would facilitate the lives of Albanians, there would be more chances to study, travel and work abroad, and also in a national level the support would be beneficial. Being part of this community it would improve the level of import and export, and without paying any tariffs. As a result, the market would grow by stimulating more foreign and domestic investors.

Literature Review

The definition of entrepreneurship involves the creation of value through union of the capital, taking on risk, technology, and human talent. The nowadays propagation of entrepreneurship is so high it gives the impression that it is a twenty-one-century phenomenon, but that is not the case. At the beginning of the eighteenth century, Richard Cantillon (1755), a distinguished economist is known as the first author to use the term entrepreneur. Cantillon (1755) used this term to refer to a person who took an active role in chasing chances. At the end of the eighteenth century, the concept of enterprise expanded, including more than the risk, i.e. planning, supervision, organization, and even ownership of manufacturing factors. The XIX century was a golden time for the entrepreneurial activity because of technological advancements during the industrial revolution a habitat was created suitable for continuous invention and innovation.

At the end of the nineteenth century there were other changes in this conception, because a dividing line was already established between those who provide funds and interest and those who benefit from entrepreneurial skills. During the first period of the twentieth century, entrepreneurship was seen as separate and unlike management. However, in mid-1930 the concept of entrepreneurship developed.

This happened when Joseph Schumpeter proposed that the enterprise include untested innovations and technologies, defined as the process in which existing products, processes, ideas and businesses are replaced with their best forms. We cannot say by definition that this concept is now determined, because history goes on, the latest updates may change or derive this concept. In the early years of the 21st century, researchers continued to study entrepreneurship and entrepreneurship. Despite this, there are still no widely accepted theories of these studies.

The importance of SMEs in the economy

It is true that small businesses do not generate as much money as large corporations, but in any case are a key component and major contributors to the power of local economies. First, small businesses pose new job opportunities and serve as building blocks of corporate firms (Edmiston, 2007). Small businesses also contribute to local economies by bringing growth and innovation to the community in which the business is built (McConnell, McFarland, & Common, 2011). SMEs encourage economic growth by offering employment opportunities to those people who may not be employable by corporations (Brown, 2016; Stan, 2014). They also attract talents that invent new products or implements new solutions to existing ideas. Furthermore, large businesses often depend on small, because the latter perform some business functions through outsourcing.

Many small businesses have the ability to respond and adapt quickly to economic changes, because they are often very customer oriented. Many local consumers are trusted to the small favorite businesses in times of economic crisis. This loyalty means that small businesses often have the chance to resist those periods, which can strengthen the domestic economy. According to Henderson (2015), small businesses lead to community economic growth and tend to be more flexible and innovative compared to larger firms. Attracting, developing and supporting entrepreneurs are an important component of economic development.

Although local-market oriented, small and medium-sized enterprises play an increasingly important role in international exchanges. In the economic literature of developed countries, there are four factors contributing to small and medium enterprises in the market economy:

- i) Contributions to the technological change processes;
- ii) Contributing to the conduct of sound competition;
- iii) Opening up new jobs; and
- iv) The high offer of products on the local market.

In addition to recognizing the importance of this business, the European Commission is trying to reduce to a maximum the bureaucratic restrictions and to undertake a number of measures to integrate them into a single market, hence the same conditions in all countries. In most European countries, fewer than 50 employees account for 90-99% of the total number of registered enterprises. Impact on increasing the importance of SMEs comes mainly from the increase in the share of the services sector, construction sector, and information technology.

SME's in Albania

The driving force of Albanian economic development is the private sector. This sector is growing steadily, producing 75% of GDP and employs 83% of the workforce. The private sector is characterized by small and medium enterprises, whose classification is based on the number of employees, annual turnover and/or annual balance sheet. SMEs represent 99.6% of active enterprises (96.20 are micro-enterprises) contributing to the formation of 72.9% of GDP and employ 71.4% of the workforce (INSTAT, 2015). From a sectorial point of view, the SME system turns out to be composed in this way:

- i) Trade (47,14%),
- ii) Hotels, bars, restaurants, (14,76%)
- iii) Transport and Telecommunication, (9.61%)
- iv) other services (13.31%)
- v) and only 15,18% from producers (agriculture, fishing, industry, construction).

Tirana, Central Albania, and coastal areas are characterized by a large presence of SMEs. 50.35% of the enterprises are located in the Tirana-Durres corridor, which is developing as an important economic center. Other areas with a high presence of SMEs are the districts of Fier, Vlora, Korça, where 24.62% of enterprises operate. In the rest of the country, especially in northern areas, business activity is very weak due to infrastructure shortages, problems associated with an inadequate business climate and lack of skilled workforce.

Nowadays, the developed world is dealing with the analysis of the successes of the unconventional instrument, as is the quantitative easing. The Federal Reserve, the Bank of England and more recently, the European Central Bank is trumpeting the success of this instrument in a world that is still financially troubled, which, according to its cycles, marks a growth, or even a major decline. The crisis showed that market players were not prepared to manage the system they had created themselves.

Research Questions

The purpose of this study was to analyze and investigate the SMEs in Albania and the levels of exportation as an important element for the EU integration. This study is mainly of investigative and explorative nature, aiming to conclude which industry sector exports the most and to highlight the main partners (in terms of nations) and also to identify or flag the perceived barriers that Albanian companies classify as impediments to exporting goods. Another aim was to classify these barriers according to each sector. In order to fulfill the aim of this study the following research questions were composed:

RQ₁: Which industry sector of Albania exports the most and where?

RQ₂: Which barriers do Albanian companies perceive as the main impediments to exporting goods?

Method

Participants

The target group for this study was Albanian companies from different sectors of the economy; the sectors were chosen based on the current percentage of their contribution to the economy. For the sample selection was followed a non-probabilistic approach but was used an intentional selection, which is the most common technique of sample selection (Marshall, 1996). According to Marshall (1996), the researcher chooses the sample that best suits the research question. This might include the development of a variable model that can influence the individuals' contribution and may be based on the researchers' practical knowledge, available literature, and the study itself. The sample size (N=163) was 163 different SMEs distributed in different sectors (Construction industry 7%, Trade 32%, Hospitality & Tourism 34%, Manufacturing industry 6%, Information and Technology 4% and Services & others 17%).

Procedure of data collection

The data collected to conduct this study are divided into secondary and primary data. Secondary data are mainly collected from articles in scientific journals or official pages and books, which relate to the literature review, whereas, primary data are collected from questionnaires filled by the selected sample.

The questionnaire was designed on the basis of the suggestions of the relevant literature and later was distributed to Albanian businesses operating mainly in Tirana but also in other important cities such as Berat, Durrës, Lezha, Fier, Elbasan, etc. In order for the sample to be more representative, it was decided that the participation of businesses should be fairly proportional to the distribution of sectors according to contribution to the Albanian Economy, which is: 43.4% Trade, Hotels and Restaurants 16.2%, Transport and Communication 9.9%, Manufacturing 9.6%, Construction 4.3%, Agriculture and Fishing 1.7%, while other services account for 14.9% (according to INSTAT).

The questionnaire used for this study included a total of 6 questions aimed at measuring the perception of companies on the barriers to export and also to measure their purposes to export in the future. Anyway since some questions were with alternatives they were considered as different variables, so the total of the considered variables was 21. The questionnaire was distributed by sectors in accordance with their contribution to the economy, the source for this information was INSTAT.

Instruments

The variables of this study were measured using the questionnaire compiled by the author, based on studies and suggestions from different researchers, with the tendency for the questions to be as convenient as possible for the specific situation. This questionnaire aimed to measure the export level of Albanian companies in Europe, compared to the Middle East or the Balkans. The challenges or barriers encountered by Albanian traders to export abroad are also measured, with variables such as: lack of planning about exportation, high levels of the accompanying risk, difficulty of finding new clients in EU, high cost, lack of products/services appropriate for EU market, difficulty on identifying opportunities, lack of time and experience, lack information on how to export, fear from possible obstacles.

In addition, there were also a number of demographic questions and general characteristics of the company, which served as control variables: the industry sector, the company's legal status and the presence of the company on the market were some of these controlling variables.

Data analysis and Results

The qualitative data gathered from the initial phase were analyzed by the author of the study in order to compile the instrument used for this study. Meanwhile, the quantitative data, obtained from participants' responses were analyzed using IBM

SPSS Statistics 20 and Microsoft Office Excel 2010. The gathered data are non-parametrical, for this reason, descriptive analysis was used to answer the research questions.

The results indicate that the main three barriers that impede participants from exporting are: the lack of planning about exportation, the difficulty of finding new clients in EU and the high levels of the accompanying risk. About 19% of the respondents believe that the main reason why they don't export is related to the fact that it's not included in their business plan, 14.7% think that exporting has high levels of accompanying risk, meanwhile, only 1.2% of the respondents fear from possible obstacles.

Barriers on Exporting	Percentages
Lack of planning about exportation	19%
High levels of the accompanying risk	14.70%
Difficulty of finding new clients in EU	13.50%
High cost	12.90%
Lack of products/services appropriate for EU market	11.70%
Difficulty on identifying opportunities	6.10%
Lack of time and experience	4.30%
Lack information on how to export	1.20%
Fear from possible obstacles	1.20%

According to this study 70% of the Manufacturing Industry do export and 50% of them in Balkan meanwhile 20% in Europe, 40% of the trading companies export in Balkan and 16% of them export in Europe, another sector that seems to have a good percentage of exporting in Europe is Information and Technology with 29% rate, compared to 14% in Balkan. Apparently, none of the respondents is currently exporting in the Middle East.

Industry	Balkan	Europe
Construction industry	33%	8%
Trade	40%	16%
Hospitality & Tourism	2%	0%
Services	31%	0%
Manufacturing	50%	20%
Information and Technology	14%	29%
Others	27%	0%

Other important results indicate that for 30% of the tradable sector, the difficulty of finding new clients in the European market was considered as one of

the most challenging, anyway, it should be noted that only 36% of this sector plans to export in the next 1-3 years.

Industry	Planning to export in the next 1-3 years
Construction industry	25%
Trade	36%
Hospitality & Tourism	0%
Services	39%
Manufacturing	80%
Information and Technology	28%
Others	7%

Despite their perception towards barriers, most of the organizations were planning to export in EU in the future. It looks like the Manufacturing sector is the first sector (80%) that plans to export in EU and license their products so that can be appropriate for that market.

Conclusions

Globalization almost always affects transition economies, by creating new connections of the labor or capital market with the international economy. Considering the 2016 progress report by the European Commission it can be stated that Albania has made some progress in improving the budget balance, fighting informality and reforming the electricity sector. In this report, Albania is evaluated as moderately prepared in developing a functioning market economy.

Encouraging export is undoubtedly a very powerful structural adjustment mechanism that has its effect on the economy of a country. In the context of Albania's economic policy, export development is considered a key factor for improving macroeconomic indicators, especially from the point of view of improving the balance of trade and job creation. The most urgent problems that Albanian companies face when exporting are lack of planning about exportation, high levels of the accompanying risk and difficulty of finding new clients in EU.

An important finding of this study is related to the current exportation of Albanian companies toward Europe, most of the companies are exporting more in Balkan. Even though it looks like they plan to export and license their products in the next one to three years, they perceive some barriers that would need to be overcome before undertaking any further steps outside the national market. Finding new clients and building a detailed business plan on how to succeed outside our market are two of the most important steps needed to undertake prior expanding their market.

Limitations and future researches

The major limitation of this study is that the questionnaire is self-evaluative and it would be very naïve to assume that all respondents answered questions candidly or not. As Hammond (2006) points out, if the respondents did not answer the questions honestly, then the results cannot be a real reflection of the population. However, the application of multiple research methods helped us to avoid possible prejudices.

This study has not been extended at different times. A study extending over several sequential periodic periods would add to the ease of this search in function of efficiency in determining the goals of this study. Also, the participants involved in this study were 163 small and medium-sized Albanian businesses of various industries. But compared to the number of Albanian businesses in total, the representativeness of the sample may be questionable. It can be said that a bigger one would have helped to make a more accurate analysis. Also, the fact that only descriptive analysis is used may be limiting, other analyzes would be possible if the data were parametrical.

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