

## Small business difficulties to achieve success: the case of Korça city (Albania)

Phd(c) GENTIAN HOXHALLI

MSc. ALISIA LILO

Msc. ARSI RISTO

European University of Tirana, Albania

### Abstract:

*Small enterprises have many difficulties in its path to success. An enterprise can be affected by business environment (external) risk factors or factors of the enterprise itself. Every enterprise is subdued to the risks that come because of the economy in which it operates the economic and financial system, culture and laws of the country where it operates. Enterprises have also their unique features that besides adding value to them reduce or increase risk exposure.*

*Albanian business presents characteristics of a generally flexible, mostly focused in service business (80%) and organized in micro-enterprises or small enterprises (99%). They involve less capital, thus being flexible to change.*

*In the course of the paper we will present the factors that affect the risk faced by Albanian enterprises, we will know the advantages and disadvantages of the small business and in the end; we will focus on the study of the small enterprises situation in the city of Korça.*

**Key words:** Small enterprises, advantages and disadvantages, employment, GDP, taxes

## 1. INTRODUCTION

Albania is one of those countries that, following the collapse of centralized economies was characterized by the nascent and

ruthless development of the private sector as the base of its economy. Private sector development has been the contour of the phonomy of our economy through these difficult years and the promoter of generating a sustainable economic growth, employment and poverty alleviation.

Albanian business over the long and difficult transition years has been transformed and has created its own physiognomy. We all remember the first businesses created by those brave entrepreneurs who engaged their ideas and funds starting from the bottom. They used their energies to grow and develop their kiosks business in real enterprises, engaging bigger capital, more manpower and also the business practices and ideas we find today in the most developed countries with a consolidated history of free enterprise.

Let us look at the major developments that the economic environment has experienced in Albania over the long and difficult transition years. A number of structural reforms have been undertaken in our country, including land reform, financial market, price liberalization and privatization. Almost all small and medium enterprises have been privatized and there has been some progress in the privatization of strategic sectors such as telecommunications and the banking system. The banking system has gradually provided more financial products and services and has improved credit indicators for the enterprises. Thanks to the rigorous macroeconomic programs undertaken in Albania, it has been possible to achieve macroeconomic stability coupled with satisfactory growth rates of Gross Domestic Product.

All this has made possible for the private sector in Albania to be the main driving force for economic growth, accounting for about 80% of GDP. To support and further promote economic growth, measures have been taken to foster private sector development and development of new enterprises. The European Charter for Small Enterprises has been signed. Priority has been given to the development of

small and medium business. Our country is implementing all free trade agreements with the countries of South East Europe, a FTA has been signed with the countries of the region/CEFTA, the approximation of the free trade agreement with the European Union has begun.

But if during this time successes have been made in the signing of many free trade agreements in the field of transport and infrastructure, these actions have not yet provided the necessary efficiency in speeding up the pace of efficiency of this trade and tariff cooperation, developing the same liberalization process in the domestic market, which can bring new energy to industrial development, research and development for new products and exports, the development of a suitable environment for entrepreneurship culture, technological cooperation and innovation.

The rapid opening up of markets, the shift towards a service-oriented economy, the relocation of the population to urban centers, the reduction of the specific weight of agriculture in the national economy, the difficulties of the manufacturing sector unemployment are among the aspects that business policies specialists should pay special attention to addressing and coping with the increasingly intense competition in this globalizing process. Continued efforts to build market institutions that have gone through great difficulties because of the lack of culture and relevant heritage, which led to the expansion of the informal economy and corruption, are already valuable lessons to consider and build a coherent philosophy and approach to the immediate needs of business development.

## **2. OBJECTIVE**

The purpose of this topic is to analyze the challenges faced by Albanian enterprises, the financial problems of its development, the obstacles that stand in its way to survival, growth and

further development. We will try to highlight the difficulties faced by enterprises in the presence of a poorly consolidated and favorable business environment. The analysis will focus on small enterprises as they occupy most of the business structure in our country. Our objectives are the following:

- The role of small enterprises in a country's economy
- The difficulties faced by small enterprises during its performance on the market
- Advantages and disadvantages of owning a small enterprise
- The situation of small enterprises in Korca.

### **3. METHODOLOGY**

In order to make concrete the theoretical part, in which the problematic issues concern small enterprises, we have decided to compile a questionnaire, which has as a subject of the study the small enterprises in the city of Korça.

The compiled questionnaire contains 10 questions about the type of business, its duration in the market, the number of employees, the difficulties they encountered, etc. One of the most important questions of our study is what businesses are looking for to improve their situation and to be more successful in the market. This questionnaire is distributed in 30 different businesses in Korca, from which we can mention: drug store, fast food, car service, restaurant, clothing shop, grocery store etc. After providing answers from enterprises, we have built a database with all the variables taken in study. From the study of variables, we have drawn conclusions about the small enterprises situation in the city of Korca, which are presented in the last part of the paper.

#### **4. STATISTICS ON BUSINESS STRUCTURE IN ALBANIA**

The driving force of the Albanian economic development is private sector. This sector is growing constantly; it produces 75% of GDP and employs 83% of the workforce.

The private sector is characterized by small and medium enterprises, whose classification is performed based on the number of employees, annual turnover and / or annual balance sheet. Classification based on the number of employees is as follows:

- Microenterprise: up to 9 employees;
- Small enterprises: 10-49 employees;
- Medium enterprises: 50-249 employees.

This division is made according to European Union legislation that considers small and medium enterprises (SMEs) that have less than 250 employees, with an annual turnover not exceeding 50 million euro and / or a balance sheet total that do not exceed 43 million euros.

On the basis of this classification, 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.

From the sectorial point of view, the SME system comprises 84.42% of the service provider (trade, hotels, bars, restaurants, transport and telecommunications, other services) and only 15,18% by producers (agriculture, fisheries, industry, construction).

Private enterprises have been established after 1990, while growing emphasis on the establishment of SMEs recorded in 2005-2009. After this period, the previous begins to mark significant decline.

The SME sector in Albania has a structure of a relatively small scale. The share of micro enterprises in total is about 96.2%, higher than the EU27 average (92%). The

contribution of Albanian SMEs in the economy, as measured from the value added (75%) is higher than the EU27 average (58%). Following the same pattern, the contribution of the Albanian micro enterprises in employment is 48% higher than the European average (30%). Consequently, the total contribution of SMEs Albanian profit employment sector is 83% greater than the EU average (67%). Small and medium enterprises are crucial to the economy, providing essential employment opportunities, supporting entrepreneurship and innovation and thus fostering competitiveness. The growth of such enterprises requires the introduction of new products, processes, and management changes as well as acquiring new systems. These steps can all be viewed as innovative (Gibb, 2000). In the context of intense and dynamic global competition driven by the continuously increasing pace of technological development, innovation is considered as mandatory for their survival (Nonaka, 1991), (Forrester, 2000), (Cardinal, 2001). Innovation is defined in many different ways in the literature. It refers often not only to a technology renewal, but also to renewal in terms of thought and action (Thong 1999, p.190).

The following table shows active enterprises by year of creation. From 2005 to 2010 enterprises in Albania have increased by about 65%.

**Table 1:** Data on small enterprises and SMEs in Albania

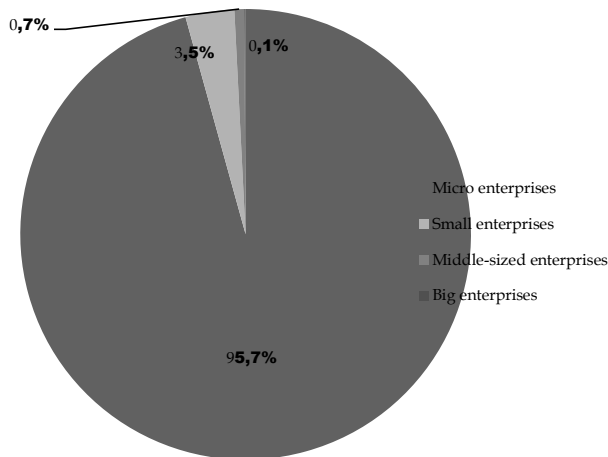
Year	2005	2006	2007	2008	2009	2010
<b>Total number of active enterprise</b>	64,710	77,814	87,484	104,750	106,477	100,687

**Source:** Ministry of Economy, Trade and Energy (METE)

Referring to their structure, active enterprises have this division: enterprises with 1 to 9 employees represent 95.7% of the total number of active enterprises, small enterprises with 10 to 49 employees account for 3.5% of medium-sized companies and 50 to 249 employees occupy 0.7%, and large enterprises

with over 250 employees accounted for only 0.1% of active companies in the country.

**Figure 1: Structures of small business in Albania**



**Source: Ministry of Economy, Trade and Energy (METE)**

All these statistics serve to highlight the significance that small businesses have in Albania. In various international reports, including the Progress Report of the European Commission, state that the business environment for SMEs in Albania had good improvements, particularly in relation registration of companies and access to finance. However, significant gaps remain in terms of development of human capital and technological capacity, diminishing the ability of Albanian companies to compete properly with the EU SMEs and to survive the competitiveness of the EU market.

## **5. THE ROLE OF SMALL BUSINESSES IN THE ECONOMY**

Comparing to large enterprises, small enterprises are often assumed to have a greater potential to innovate. Small enterprises in the US produce twice as many “innovations” as large enterprises and a significantly greater numbers of patents

(Stringer, 2000). Those who hear the word "business" and automatically think of giant corporations such as Coca Cola, IBM, Sony, etc., do not notice a component of the business world or the Small Business as a backbone of the national economy. The small business is the basis of the free enterprise economical system. The flexibility of SMEs with simple organizational structure, low risk and receptivity are the essential features enabling them to be innovative (Gourova, 2010). For many people owning a small business people, due to greater independence and financial income that brings, it is more attractive. Indeed, some have had lifelong dream to own their own business. However, many people are reluctant to implement this dream to life because of the opinion that they may lack the necessary education, experience and the necessary money or to put it in a simpler way, afraid it might fail. Some people cannot get familiar with the idea that they can change their lives; that they belong to the group of people that may have their own business. However, for some, because they are fired from work and could not find other ways to make money to survive, a personal introduction to business is an economic necessity. Still, whatever the reason is, owning a personal business, probably contains one of the most challenging things, more joyful, more compelling and more serviceful.

However starting a business problems and real dangers may emerge. In recent years, there has been a great revival of small businesses to the developing world. Even in Eastern Europe and the Soviet Union, such skills are highly valued (Dalkir, 2013). In most developed 6-15% of the working population are men and women of small businesses economies. For example from a sample of 27 million working people in the UK, about 3.4 million are involved in small businesses, more than half of all people employed in the UK industry are operating in small business. In Italy 90% of all industrial firms are small businesses, and absorb 84% of employment total. In



Denmark 92% of all manufacturing firms are small businesses that employ 43% of the workforce.

It is generally known that, after the collapse of centrally planned economies, the private sector appears with an impressive speed in all transition economies, while the number of small businesses grow day by day. In addition, it is known that the growth of entrepreneurial activity is more oriented toward trade than industry. Domestic markets in transition economies become more liberalized where citizens are eager for Western consumer goods.

Albania is one of the countries in transition, where transition to the market economy is closely linked to private sector development and, in particular small and medium-sized businesses, which will play a key role in the reformation process. It must be clearly pointed out that the creation of an economical and political environment that enables the creation and development of small businesses is one of the important tasks of the government. Assistance for the development of small business is an integral part of the overall economic reform along with enterprise restructuring and ownership reform, stimulating investments and financial reforms. Development of Small Business is an essential element of economic development.

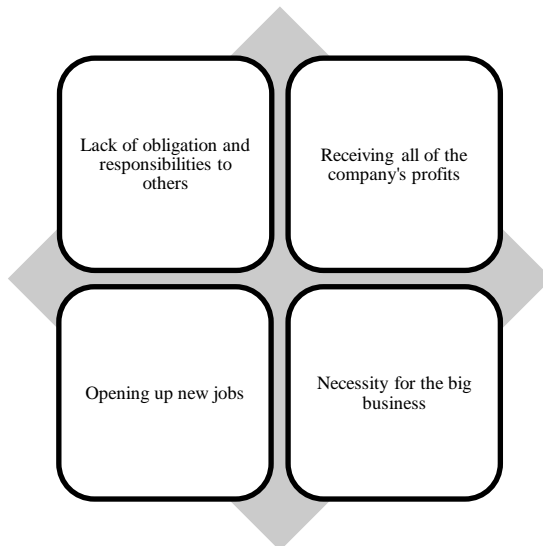
The Strategic Importance of Small Business is recognized worldwide for the following reasons:

1. Small business is contributing to increased employment at a higher rate than large business.
2. Small business is the backbone of a market and transition economies. In the long run it can provide the major part of employment.
3. Small business produce mainly for the domestic market, using mainly national resources.
4. Relocation of large enterprises, the formerly state owned, in smaller enterprises and private firms will increase the number of owners who represents a group

of people with a commitment and greater accountability than the former centrally planned economies.

5. Increased number of small businesses will bring flexibility to the society and economy, and can facilitate technological innovation and provide significant opportunity for new ideas and to implement skills.
6. Small business use and develop, mainly, technologies and internal capabilities.
7. Development of Small Business is a key factor for the country's regional development

**Figure 2: Advantages of small business ownership**



**Source: Camarinha-Matos, 2006**

Firstly, the small business entrepreneur has no liability and is not responsible for anyone. Almost every decision is likely to be taken as long as it possesses the necessary income. He is the leader of the only activity that has raised.

Second, there are large potential rewards. Few executives from large firms have become very rich. Many of the company's profits are divided among a large number of

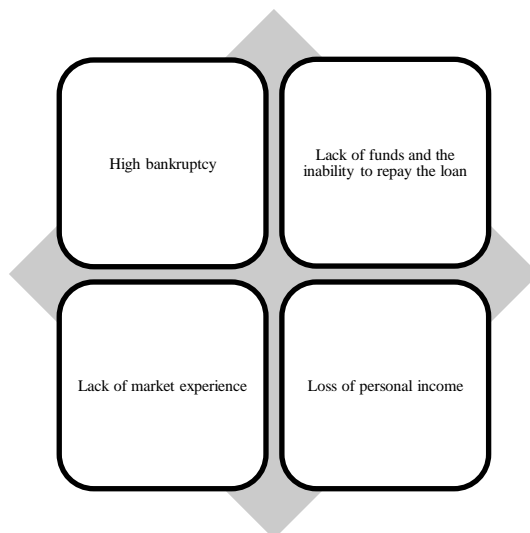
dividends. A relevant case is when small business owners get rich from their firm's profits;

Third, small businesses every day report are prepared for the products and services offered to market;

Fourth, the dependence of big business by small business. The economy depends on small businesses not only for their sales and innovations, but also for many other reasons. Small businesses employ 10 million people. They also sell the most products, made by the great manufacturers to the consumer. In addition, they provide big business with most of the services, tools and raw materials that they need.

Small businesses are the biggest creators of new jobs. The growing number of small businesses makes it possible to engage in work millions of people. This number grows from year to year because every year the number of small businesses, new or existing businesses, expand.

**Figure 3: Disadvantages of small business**



**Source: Romero, 2009**

Financial results, innovation, sensitivity and creating new jobs are the bright small business panoramas. In contrast, the other side reflects the unique problems of small business.

Small business has a high rate of failure. Many small businesses fail each year because they are unable to pay their loans. Business failures occur more often when the economy is in a difficult position.

In addition, new businesses are much more likely to fail than older businesses. Of businesses that fail each year, approximately 25% are less than 5 years. In contrast, less than 25% of all business failures include firms that have been operating for more than ten years.

The moment of starting a small business requires taking different decisions. The entrepreneur must examine the relationship between risk and profit. The risk of business failure is great and small business failures often result in personal bankruptcy. This is true for small businesses, organized based on personal assets, because most owners usually guarantee their company's bank loans with personal resources.

## **6. THE RESULTS OF THE QUESTIONNAIRE ON SMALL BUSINESSES IN KORCA**

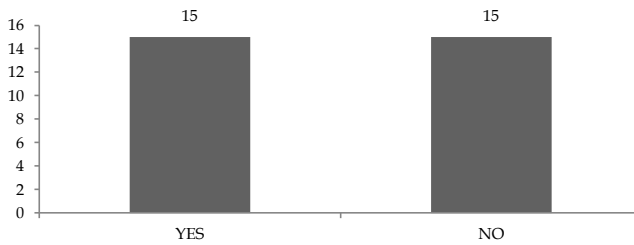
The choice for this study consists of 30 businesses from the city of Korca where are included: fast food, grocery store, boutique, restaurant, sports pool, car repair shops, pharmacy, internet center, dental laboratory, shoe store etc.

This choice helps us extract the overall results of the market situation in which small businesses operate. The average duration of these businesses in the market is about 4 years. (minimum one year and maximum 7 years)

Regarding the question whether the business had fiscal incentives in the early opening, the following results were obtained (Figure 4). As can be seen from the chart, 50% of

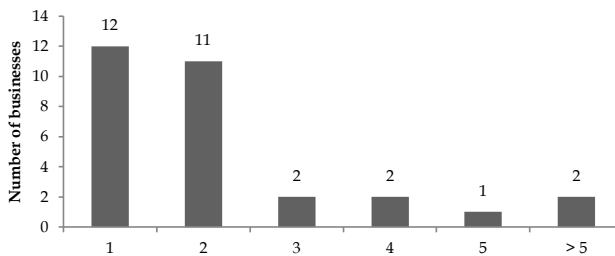
business recognizes the tax incentives in early activity, so lower taxes. This is an appropriate fiscal policy to stimulate the creation of new businesses and to give them opportunity to grow in the market.

**Figure 4: Fiscal Facilities in the early opening of a business**



**Source: Authors' own calculates**

**Figure 5: Number of employees in small businesses**



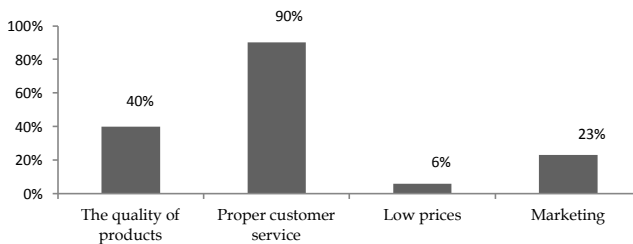
**Source: Authors' own calculates**

As can be seen from the graph the number of employees in small businesses is low (1-2 employees). The majority of them have only one employee, who turns out to be the owner himself. In general, at the grocery stores or clothing family members are employed. A very small proportion of businesses happen to be employing over 5 persons. These are the tailoring industry, restaurants, etc. construction firms etc. This fact highlights the low capital with which a small business is started and the inability to pay the workforce. In general it is the entrepreneur who performs several functions in its business. He answers and

is responsible for all obligations arising from its business activities.

Another question conducted to businesses is: “What is your strongest point with which you compete in the open market?”

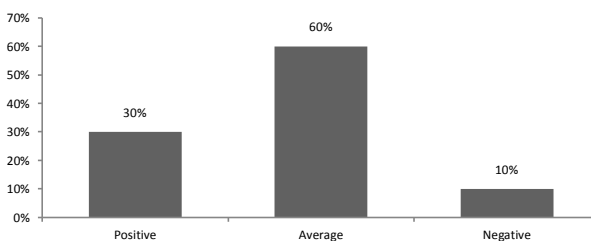
**Figure 6: A business strongest point**



**Source: Authors' own calculates**

90% of businesses give a great importance to customers and their strongest point is the service offered toward them. 40% of businesses compete with the quality of products. .In the third place as a strong competing strategy is marketing.

**Figure 7: The business performance in the market**

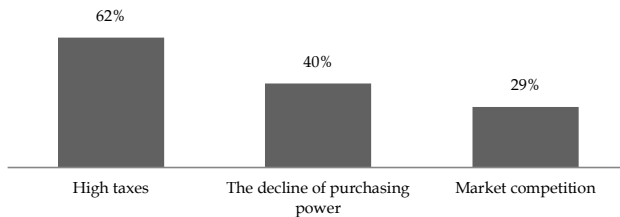


**Source: Authors' own calculates**

Regarding the question of whether entrepreneurs are satisfied with the performance of their business in the market, only 30% of them responded positively. The majority, about 60% of owners agree to the fact that the business has been volatile, in other words, with ups and downs during his performance. From

the the businesses surveyed about 20% of them are endangered and bankruptcy, which is one of the most disturbing problem which small businesses face. There are hundreds and thousands of new businesses that start off every year, but unfortunately less than half of them are successful. The causes of business failures in general are highly debated especially small business because of the importance and the place they occupy in the national economy within a country.

**Figure 8: The greatest difficulty that a business faces.**



**Source: Authors' own calculates**

Three problems faced by small businesses are related to finance, taxes, slow turnovers or a decrease in purchasing power and growth of competitors in the market. Often small business owners find themselves unable to afford their business anymore when sales slow down. This leads to bankruptcy.

The biggest problem faced by small businesses in the city are high taxes, which reduce profit and aggravate the economic situation of entrepreneurs. Many of them say that a large part of the income they derive from the business goes to paying taxes. But these obligations are narrowing even more the sphere of their profits, prompting that the opening a business is completely useless.

The second disturbing problem for entrepreneurs is the decline in purchasing power. According to them, decline in purchasing power has reduced income, and as a tax payments have become unaffordable. Market liberalization and the creation of opportunities for market entry, increase

productivity, competitiveness and growth protection are some of the important objectives of country sustainable economic development. The realization of these objectives imposes the need for decision-making carriers create such economic policies adopted by appropriate legislation, which will affect economic growth through competitive market on one side and the on other side to eliminate behaviors that undermine the free market. Such policies will have multiple positive effects on the state's economy, businesses and consumers in particular. But on the other hand, increased competition in the market is seen as a threat by the existing businesses as it may reduce their profit.

The last question addressed to businesses was if they were part of a union and what they seek to improve in their market performance. About 90% of the entrepreneurs were not unionized. Unanimous demand of local run businesses was cutting taxes and fair competition or in other words the implementation of the law equally to all. This means that fiscal packages to small businesses should be reviewed because the tax burden is becoming unbearable for them and not only does not lead to small business success but it leads to bankruptcy.

## **7. CONCLUSIONS**

Small businesses are more flexible, even if they do not operate properly. But even this kind of business has its problems. A businessman makes choices every day that contain risk. Indeed, the very concept of entrepreneurship can not be understood without risk. In the end, the reward required from an entrepreneur in the form of profit is the reward for the capital it invests to entrepreneurial operations that conducts and the risks it assumes. Often, many businessmen are based on experience and their intuition in decision making, including the assessment of the risks that these decisions carry. The fact is that small businesses can start without much tribulation, with



a small initial capital, but who starts must be convinced that it is accompanied with the risk of failure. Small firms are more numerous and easier to setup. They are less costly. They have an advantage because the owner takes all the profits for themselves. He is the "god" and has the right to do whatever he wants. For example, to change the destination of the workforce in order to adapt to an economic crisis. We can state that small firms have also some bad things. The owner has unlimited liability. All debts of the problems associated with the business fall on his head. If the business fails, only he settles debts and can lose everything invested. We should note that the economic difficulties affect more than the small business than larger ones. Various studies indicate that a firm that has 54 employees has within 20-50% chance of survival in its first four years. A firm with fewer than 20 workers has 37% chances to fail, after the owner takes all the profits for themselves.

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