

# IDENTIFY THE MAIN CHARACTERISTICS OF SMES. THE ADVANTAGES AND DIFFICULTIES THAT SMES FACE IN SHKODRA.

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## Abstract

The sector of small and medium businesses plays an important role in the economic development of any country, and in particular for Albania, which is passed in the period of transition. Especially in transition countries, SMEs are faced with many barriers: administrative barriers, lack of technology, limited access to finance, entrepreneurial skills, etc.. The paper presents a topic that is very current, because it relies on the difficulties faced by SMEs today, and to their role as very important sector in sustainable economic development that has to do with decreasing unemployment, increasing domestic production, improving trade balance, increase the investment in the city of Shkodra. As SMEs are one of the most important factors for economic development, I have considered important to study their characteristics, advantages and difficulties of SMEs, the management of the small and medium enterprises, the role of SMEs in unemployment etc., in order to minimize constraints and support their development. In the second half of the paper will be an analysis of the data found by empirical research conducted through surveys of SMEs in the town of Shkodra. The last part of the paper will be provided recommendations, which aim to improve current conditions for SMEs in terms of external and internal in order to increase their performance.

**Key Words:** Advantages and Difficulties of SMEs, The Management of SMEs, The role of SMEs in the Economy, Unemployment and SMEs.

## Introduction

In Albania, until recently there has been no clear definition of the micro enterprises. Furthermore, unlike many countries of Central and Eastern Europe which had a sustainable activity in the private sector, in Albania before the '90s there was no sign of the private sector because it was prohibited by law. Birth and development of the private sector in Albania, coincides with the collapse of the centralized economy system. In this period of twenty years of economic transition, it is recognized that the Small and Medium Enterprises (SMEs) played a major role in the development of the economy. SMEs in Albania have contributed in employment creation, income generation and stimulation of growth in both urban and rural areas.

The development of SME sector is considered as the most efficient instrument for transition economies, which generates sustainable economic growth, employment and poverty alleviation<sup>453</sup>.

In developed countries, SMEs typically account for 99% or more of all firms. SMEs are flexible, innovative (Timmons, 2004; Schramm, 2004) and responsive. They tend to be more productive (Luetkenhorst, 2004). They are a crucial part of the supply chain – providing materials, sub-assemblies and services to larger businesses and distributing goods to customers. Michael Klein notes that the fall of communist regimes has demonstrated that market economies desperately need SMEs (IFC, 2004). He observes that they were missing in the transition economies and are currently the fastest growing segment of firms, often with productivity gains outperforming those of larger firms.

SMEs dominate Albania's economy, representing 99.6% of all registered businesses. Part of the SME sector accounts for about 73% and employs 71% of all employees. SMEs in Albania focus on domestic market and lack competitiveness in export<sup>454</sup>.

## Methodology

The study for this paper is based on an empirical research, attempting to achieve a valid measurement to understand some features of SMEs in the town of Shkodra. Quantitative techniques-survey was conducted through a search focused on SMEs in the town of Shkodra. 100 questionnaires were distributed to the small and medium enterprises in this city, and were gathered 93 of them. The questionnaire was addressed to 100 managers / owners of SMEs that conduct their activities in Shkodra. The choice of respondents was conducted at random and surveys were completed by direct contact with them.

Qualitative techniques- analyses and interpretation of information gathered by economic bulletins, reports of the BOA, INSTAT, METE, and information provided by contact with managers of SMEs.

## Definititon of SMEs

There are various opinions about SME s size measurement criterions and their amount (Dinçer, 1994). There is no universally definition of SMEs. Different country use various measures of size depending on total number of employees, total investment and sales turnover. Generally *SMEs can be defined as economic enterprises requiring little capital, having the quality to make a quick decision, working with manual labour and in low level of management expenses and manufacturing with low expenses* (Uludag, Serrin; 1990). These enterprises possess an important feature for industrialization, strong urbanization, optimum distribution and commercial applications within the social and economical structure of countries. In the said developed and developing economies, SMEs are profit-focused and creating value added enterprises contributing to employment drastically, decreasing the

<sup>453</sup> METE- Ministry of Economy, Trade and Energy, 2008.

<sup>454</sup> ATN- Training needs analysis of SMEs, 2010.

problem of unemployment, leading economic growth and transition of thought to the action. Thus they play an active role in determining the policies and strategies of the all the countries. (Türköz, 2008).

There are two main ways to define an SMEs:

a) **Quantitative**-which is based on criteria such as employment, turnover, assets, size, etc.. These criteria vary by industry and country.

b) **Qualitative**-based on ownership or control of the business. Small firms are independent and are not owned or controlled directly by the larger firms. Other forms of qualitative approach to defining small firms involves trying to capture the meanings, beliefs and behavioral aspects, including issues facing managers, which vary from small businesses largefirms ( Glancey and McQuaid, 2000).

**Table no. 1. SMEs definition in Albania**

<b>Micro and Small Enterprises</b>	<b>Medium Enterprises</b>
<i>By number of employees</i> Micro enterprises: 1-9 employees. Small enterprises: 10-49 employees.	<i>By number of employees</i> Medium enterprises: 50-249 employees.
<i>By annual turnover</i> Micro enterprises:<10 million lek. Small enterprises:<50 million lek.	<i>By annual turnover</i> Medium enterprises: <250 million lek.
<i>By form of ownership</i> 100 % of capital must be owned by individuals.	<i>By form of ownership</i> Less than 25 % of capital can be owned by enterprises which are not classified as SME.

Source: Kume, V., Koxhaj, A., Kume, A., (2009), "SMEs: A key factor for economic growth and employment".(<http://fbm.ru.acad.bg/jei/Issue-9-2009/4.pdf>)

**The importance of SMEs**

The development of SMEs sector is considered the most efficient instrument for transition economies, which generates sustainable economic growth, employment, poverty alleviation and improvement of national economic welfare. Below are listed the most important factors for the contribution of SMEs to the market economy:

- *Generating new jobs.*

SMEs contribute to employment growth on a large scale. Also in countries in transition, as well as Albania, SMEs in the long run may provide most employment. Actually SMEs covering about 71% of employees.

- *Flexibility.*

Flexibility has to do with the change of activity of enterprises depending on changes in market conditions and rapid adaptation to these changes. SMEs are recognized for their ability for flexibility, the ability to change output quickly and without major consequences, it changes depending on the environment where they operate.

Some of the dimensions of flexibility are:

Flexibility in prices.

Price level of a product depends on the elasticity of that product. However, for SMEs it is easier to change the price depending on economic conditions than for large businesses.

Flexibility due to changes in supply and demand.

The ways in which SMEs are organized makes it easier for them to change their output depending on market changes.

Flexibility due to organizational change.

SMEs are more inclined to be more flexible in organizational forms. They can get new employees when demand for their products rise and turn away when demand falls. It would be difficult for large

businesses because of pressure from workers' organizations.

- *Innovation.*

SMEs are often more innovative companies. They may present new products, new management styles and new promotional strategy. A large part of the new products are created precisely by SMEs. On the other hand, an increasing number of SMEs bring flexibility in the economy. This can facilitate technological innovation, provide new opportunities or ideas, and enable the development of skills to implement these ideas.

- *Increased competition.*

Since legal and administrative obstacles to the creation of a small business are eased, the number of enterprises operating in this sector has recently been increased. For this reason, managers of SMEs need to enhance their skills and performance to meet customers' requirements better than competitors, in order to succeed in the market.

- *Produces in the domestic market, mainly using national resources.*

In this way helps to technological developments and develop professional skills within the country and its regional development.

**An Overview on the advantages and disadvantages of SMEs in Albania - SWOT Analysis**

**Advantages of SMEs:**

- Close contacts with customers;
- Continuing innovation;
- Strategic location, specialization in specific market and limited - often leading market;

- Employees motivated, committed and flexible;
- Flat structure of the business, not formalized, or entrepreneurial manager is in the midst of company activities;
- High flexibility, rapid response - The ability to adapt to new situations;
- Long-term perspective - no value to shareholders;
- Particular culture of cooperation;

- Stability;
- Regional Focus.

**Disadvantages of SMEs:**

- Difficulties in obtaining capital;
- Nepotism;
- High costs of regulation;
- Lack of resources;
- Difficulties in hiring good staff.

**Table no. 2. SWOT analyses of the SME sector in Albania:**

<p><b>Strength</b></p> <ul style="list-style-type: none"> <li>• Increased government and Donor support for the development of the SME sector;</li> <li>• Good reputation business partner in selected sectors such as shoes, herbs etc.;</li> <li>• Proximity to the EU markets technology transfer, sub-contracting, FDI and exports;</li> <li>• Relatively educated and technically trained workforce;</li> <li>• Liberal regulations for development trade and investments;</li> <li>• Low labour cost.</li> </ul>	<p><b>Weakness</b></p> <ul style="list-style-type: none"> <li>• Limited financial resources for investments and operational costs;</li> <li>• Inadequate and partly obsolete technology ;</li> <li>• Limited access to information on modern production technologies and markets;</li> <li>• Inadequate skills for strategic management of companies and marketing;</li> <li>• Inadequate entrepreneurial culture with regard to market and export orientation;</li> <li>• Underdeveloped stock market , especially capital market infrastructure;</li> <li>• Low level of domestic demand.</li> </ul>
<p><b>Opportunity</b></p> <ul style="list-style-type: none"> <li>• Increased SME lending by a number of microcredit institutions;</li> <li>• Albanian products are increasingly replacing import;</li> <li>• Albanian businesses look to obtain higher regional access;</li> <li>• New financial support schemes such as , leasing etc. could be considered as future options;</li> <li>• Removal of administrative barriers in Free Trade Agreement with CEFTA Diaspora support by Albanians living in European countries.</li> </ul>	<p><b>Threat</b></p> <ul style="list-style-type: none"> <li>• The existence of informal and grey economy;</li> <li>• Limited ability to increase competitiveness;</li> <li>• Unfair competition;</li> <li>• Uncertain political situation in Kosovo.</li> </ul>

Source: SMEs in CITs, UNECE, New York & Geneva, 2006.(<http://www.unece.org/indust/sme/smepub03.pdf> )

**Challenges in the development of SMEs**

SMEs constitute an important economic sector in Albania. While the free initiative of entrepreneurs has dictated its will during the transition period, some problems still prevail, which all affect the quality of their performance, their ability to increase production capacity or to improve product quality levels comparable with EU standards, undermining their position in local and regional market:

Most of these enterprises lack management skills and know-how for an effective performance management. Consequently, they have shortcomings in monitoring, analyzing and regularly introducing changes in business processes, renewal of technologies, implementation of programs for staff development, identifying new trends in buyer behavior, which may affect the positioning of products or services, the ability to continuously improve quality and efficiency of production, etc.. In conclusion, enterprises fail to adequately address issues of globalization and

competitive skills, or to benefit from the opportunities of the case. Many SMEs are hesitant to pay for services provided by local operators as well as on management training or technical assistance to strengthen the capacities of their organizations. This is due to lack of confidence in the quality of their service, often conducted by trainers / consultants qualified, with poor training modules, all of these undermine the reliability of consultancy service operators in the business community. Moreover, lack of confidence of businesses in a measurable impact and benefit from such technical assistance, often based on trust of donors to the operators of these services, which have a certain capacity, but with the lack of specific technical skills and industrial, as well as lack in presenting our clients' evolving reality. Such services often neglect to identify specific business needs to learn. Thus, they fail in the development or adaptation of training accessible for a specific audience, skipping demonstration of the value

of the service offered, directly measuring the impact of their advice and / or establish a long term relationship with client support through his continuous. Consultancy market, is focused on donors rather than to business customers, and therefore does not provide appropriate challenges for its service operators, to constantly increase their professional skills and to show their competitive advantage in the market . Sporadic training of trainers and other uncoordinated programs for development of skills for operators of business services, without an integrated effort to support a system of knowledge required, do not provide a lasting, sustainable and measurable competitive skills of trainers and consultants.

**Research results**

The purpose of this questionnaire was to secure information regarding the development of SMEs in Shkodra, in terms of conditions and environment in

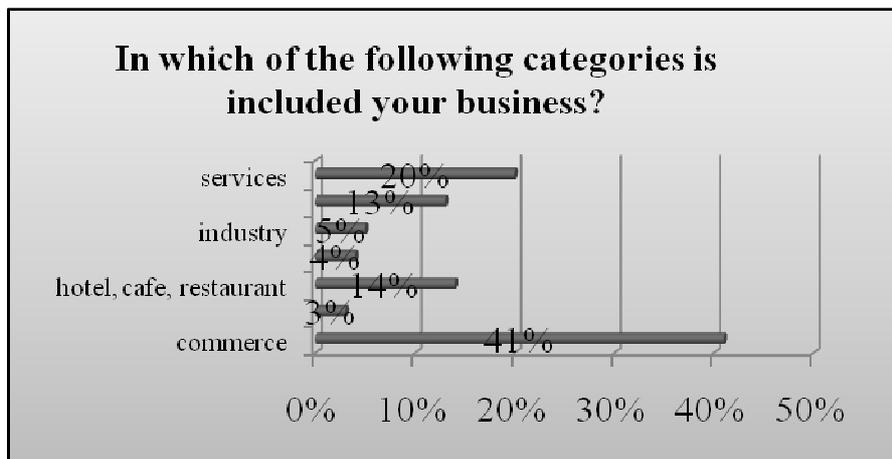
which they operate. In this section are presented some of the results obtained from the questionnaire.

70% of those interviewed are businesses owns and 30% of them are managers of finance.

SMEs operating in all parts of the economy. They operate at higher rates in service sectors, retail and wholesale sales compared to the manufacturing sector. The following graph provides some information on the distribution of enterprises by economic activity in Shkodra. Based on responses received to the relative weight in the economic activity of enterprises involved in the study, a greater share in economic activities operating in Shkodra has trade by 41%, a considerable weight has services with 20% and less weight has the agricultural sector and industry respectively with 3% and 5%.

The data are presented in the graph no. 1 as follows:

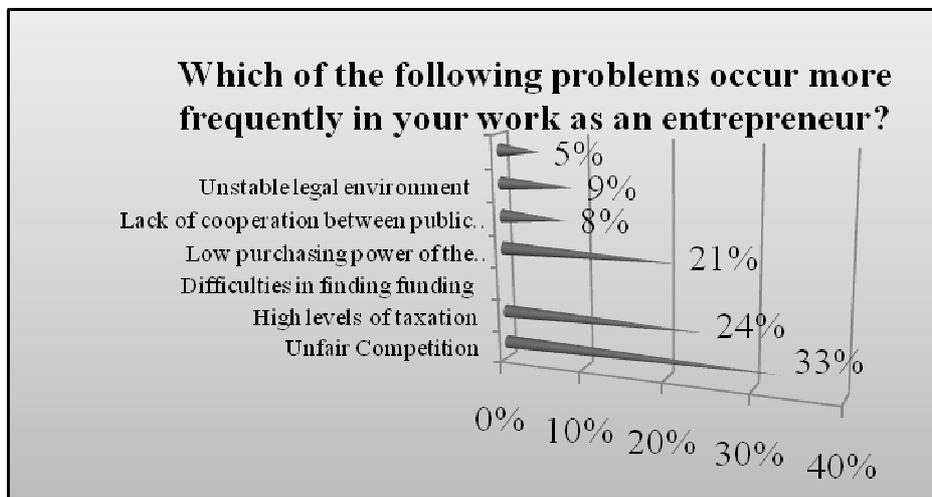
Graph No.1



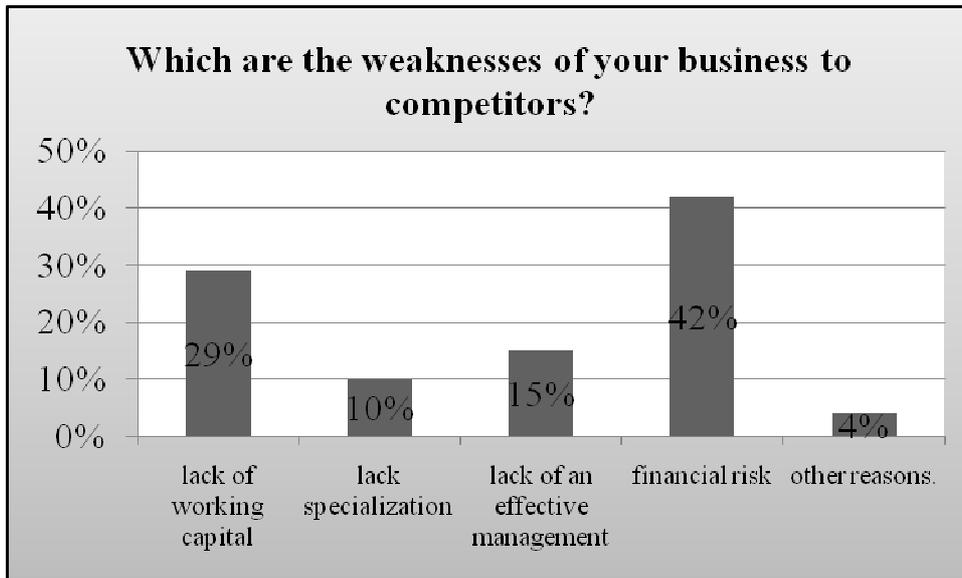
Problems faced by entrepreneurs in Shkodra

From a study conducted with 100 respondents in the city of Shkodra showed that the main problems faced by entrepreneurs during their work are: unfair competition by 33%, high level of tax to 24% and the low purchasing power of population by 21%. The data are presented in the graph no. 2 as follows:

Graph No.2



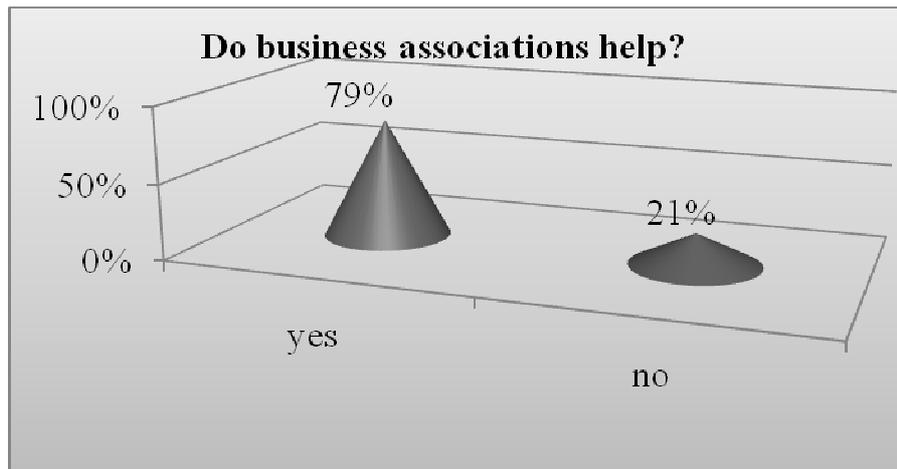
When respondents were asked about weaknesses against competitors, 42% of them cited financial risk, 29% lack of working capital and only 15% lack of effective management. The data are presented in the graph no. 3 as follows:  
 Graph No.3



To the question whether it difficult to find qualified people 82% of them answered "yes" and 18% had no difficulty finding qualified people. Businesses claim that it is particularly difficult to find qualified people with technical and marketing skills, market-oriented. The data are presented in the graph no. 4 as follows:  
 Graph No.4



When businesses were asked whether business associations helped them in developing their business, 79% responded positively and 21% negative. The data are presented in the graph no. 5 as follows:  
 Graph No.5



It should be noted that although businesses responded that business associations can support the development of the activity, they do not mention any specific name.

### Conclusions

- Most significant barriers faced by businesses in the SME sector are: unfair competition, high taxes and low purchasing power of the population.
- Innovation and development capacity of business management is vital for sustainable growth and increasing business to a higher level.
- SMEs in Albania, mainly are concentrated in domestic and international competition is missing.
- The main obstacles to implementation of investments by SMEs are the financial situation and lack of purchasing power.

- Creating opportunities for financing of SMEs by creating special funds for them.
- Support and favoring companies that bring technological innovation.
- Compilation of new reforms by the government to support SMEs.
- Raising awareness of Human Resource Development.
- Implementation of basic marketing theories and focus on clientele.
- Improving the current management style and skills to a large number of owners / managers of SMEs.

### Recommendations

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