SMALL AND MEDIUM Sized Entreprises; Growth factors

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Abstract
SMEs occupy an important role in most of economies. In Albania the SMEs represent 99.6% of all registered businesses, the share of the SME sector in GDP is 72.9% of GDP and the number of employees reaches the level of 71.4% of all workers. The SMEs are considered as a key factor for a stable economic environment to make lower the levels of the poverty in the country, to make an equal income distribution and to increase the employment rate. The impact of SMEs is visible in almost every field like finance, human resources management, retail, service industry, manufacturing and the agricultural sector. SMEs often offer specialized services/products in a more efficient manner rather than larger companies. This paper aims to contribute in finding some determinant factors related to SMEs growth and performance in a transition economy.
Empirical researches argues that firm growth is measured not only from traditional factors of the firm (size and age), but also from specific factors including internal financing, future business plan, factor productivity.
During the last five years the economic situation has been very unclear and uncertain. SMEs have experience the most challenging crisis. The 2013 is expected to be a positive year regarding the Small and Medium Sized Enterprises in Europe, i.e. turning point. The economists are hopeful, and are expecting an increase in the total employment by 0.3% and 1% increase in the value added.
Considering the importance in all economies for recovery and development, SMEs growth is a crucial issue.

Keywords: SMEs, growth, size, age

Introduction
It is well known that the private sector in Albania is mostly composed by Small & Medium Enterprises. They are mostly concentrated in Tirana, the capital city of Albania, in the central area and the coastal area. More than the half of these SMEs has their headquarters and main location along the high-way Tirana-Durrës, an important axe of trade for the whole country. Other regions are Vlora, Korça and Fier. In the northern region there exists a few numbers of small businesses.

Policymakers and academics have recently been attracted by SMEs. Governments are trying to promote and support SMEs because of their overall contribution to the economic development, because of their impact on the local and regional economies.

The global nature of the policy issues, the role played by the SMEs in the national economy are very important and have to be taken into account. The Small and Medium Enterprises are considered as a local force in a global action. The performance of small and medium enterprises can lead these firms to success or failure. Most of SMEs cannot survive
the second year due to challenges in market or human resources, lack of capital or legal conditions, or non-stabilized institutional regimes. Different authors state that SMEs differ from larger enterprises because they do have different growth possibilities. They find a correlation between growth and business cycle where large firms experience expansion during recessions/recoveries, and SMEs often seem to grow in booms. According to Huynh & Petrunia 2010 firms that operating with growth tends to have higher debt levels than firms that have lower growth. During the '80s SME have acquired a special status by becoming an object for future researches. In economic terms there are some reasons like: the entrepreneurship role, critics regarding scale economies, needs for flexibility and innovation on production systems.

The European definition for SMEs can be found in the Commission Recommendation regarding the definition of micro, small and medium-sized enterprises and cited as below:

Micro, small & medium-sized enterprises (SMEs) with fewer than 250 employees (the annual turnover should now exceed 50 million EUR; the annual balance sheet should not exceed 43 million EUR).

A small enterprise is the firm with less than 50 employees (the annual turnover and balance sheet should not exceed 10 million EUR).

A microenterprise is the enterprise with fewer than 10 employees (the annual turnover and annual balance sheet in total should not exceed 2 million EUR).

The Albanian definition for Small and Medium sized enterprises can be found in the Law Nr 8957 date 17/10/2002 as the follow:

Micro enterprises are classified those firms with fewer than 5 employees.

Small enterprises are classified those firms with an annual turnover that does not exceed 285.000 EUR that have 6-20 employees. The subjects that own the capital of the enterprise should be classified under this law as small enterprises.

Medium enterprises are those firms with an annual turnover that does not exceed 570.000 EUR that have 21-80 employees.

### Some Albanian National data:

- Population: 3.162 millions
- Population density: 115.105
- GDP: 13.12 billion
- GDP growth: 0.8 %
- Inflation: 2.0 %
- Labour force: 1.481 millions
- Unemployment rate: 13.8 %

### Literature review

During the early 1970s a stream of research was developed around a common research subject: the growth of the company. But at the end of 1970s the research on SMEs took another direction. Several authors do not consider it any more as a reduced model of big sized companies, but as an enterprise to which we can find particular and specific

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61 Abor & Quartey (2010); Kayanula & Quartey (2000); Mensah (2004)
62 Of the 6 May 2003 (notified under document number C(2003) 1422)
63 By annual turnover the European Commission(EC) intends incomes form sales/services without VAT and other indirect taxes
64 Including only the staff headcount criteria
65 The annual turnover should not exceed 40 million Leke. (1 EUR=140.25ALL)
66 25% of the firms' capital does not belong to an enterprise that is not small and medium
67 The annual turnover should not exceed 80 million Leke (1 EUR=140.25ALL)
68 Gervais 1978; Dandridge 1979; Marchesnay 1982; Hertz 1982
features: SMEs display a different scale of organization, operation and challenges. I find this very interesting. For this reason SMEs become progressively a research object on their own.

In the United States there are researches\(^69\) which analyze the impact of firm size and age on firm growth with a result of a negative correlation between size-age & firm growth. In their research Morone & Testa (2008) by analyzing 2600 firms consider that young firms tend more to have a positive growth. Many different authors have examined the correlation of firm’s growth and the financial structure of the firm. From the research conducted in the Italian manufacturing industry Becchetti & Trovato 2002 argue the influence of external finance in firm growth. Other authors\(^70\) found that SMEs growth depends on access to finance. By analyzing Swedish data from Heshmati (2001) we find a positive relation between indebtedness and sales growth.

From different articles we find that SMEs are more dependent to external funds (bank loans) in contrast with large firms. Because of the lack of information, often banks do have a higher risk when finance SMEs. Hyz (2006) states, that the importance of the SME sector in the economies of Central and East European countries is related to the demonopolization of economy, the social stability and creation of new jobs. But of no less importance are the recent conclusions that address different barriers like institutional, internal organisational, resource barriers, external market barriers, financial and social barriers\(^71\). Different kind of barriers tends to prevent SMEs from achieving their full potential\(^72\).

The performance of a country is closely related to the SME performance sector. SMEs make a contribution to the regional economic development. Two authors Fisher, Reuber&Dyke consider: labour characteristics, the sectors of activity, gender of owner and efficiency as key factors for the small and medium enterprises\(^\ast\) role in a developed world.

Recently the literature was not focused on this particular role of the business environment. There has been no systematic analysis in the effects of employment, growth and development to SME. The SME sector in the Western Balkans demonstrated a low performance from the SME business index\(^73\).

In Albania the SMEs sector is considered very important and of high priority, because it has adaptability, generates employment and future innovation\(^74\). The innovation scale that SMEs pursue depends if the industry is emerging or if it is a mature\(^75\). Another author Moore, 2004 states that innovation can change through different points in the product’s life cycle. As Marchesnay (1993) points out, the research about SMEs permits to be notable ‘concretely, visible on the observer eye the hidden difficult to catch and to interpret issues that are not for the big companies’. SMEs often are presented as a productive unit where these kinds of phenomenon are more readable.

Empirical researches argues that firm growth is measured not only from traditional factors of the firm (size and age), but also from specific factors including internal financing, future business plan, factor productivity. In the macro level economists analyze the influence of GDP, inflation and income tax rate to SMEs growth in these transitions countries. They analyze as well if SMEs growth is positively correlated to an economy with better economic opportunities.

In 1931 Robert Gibrat formulates the Law of Proportionate Effect (the so-called Gibrat Law) stating that firm growth is not dependent on its size.

\(^{69}\) Evans, 1987  
^{70}\) Fazzoni et al (1988); Becchetti & Trovato (2002); Wagenvoort (2003); Carpenter et Peterson  
^{71}\) Smallbone, (2003); Bartlett & Bukovic, (2001)  
^{72}\) Gruda, Servete., Milo (Lati), Lindita., (2010)  
^{73}\) OECD; (2007)  
^{74}\) Gruda, Servete., Milo (Lati), Lindita., (2010)  
^{75}\) Nooteboom,1994
The Gibrat Law (which can be used in many mathematical models) can be cited:

\[ S(t+ \delta)_{ij} = U_{ij}(t; \delta) \cdot S(t;ij) \]  

(1)

- \( S(t;ij) \) is the size of the \( j \)-firm in the \( i \)-industry at the time \( t \)
- \( S(t+\delta;ij) \) is the size of the firm at the time \( t+\delta \)
- \( U_{ij}(t+\delta) \) is a random variable distributed independently of \( S(t;ij) \)

From the empirical evidence we notice that not all economists agree on Gibrat findings.


While other e.g Evans (1987), Hart (2000), Davidsson et al (2002) and Yasuda (2005), they all have argued on the negative relationship between size/age and growth. The first economists whom have demonstrated that Gibrat law is not consequent for United States firms are Hall (1987) & Evans (1987).

Another econometric model\(^{76}\) regarding the firms’ growth factors and variables is presented below:

\[ g\, rate = f \{age, size, industry sector, legal form, ownership governance, location, international activities\} \]  

(2)

On their research these authors consider on their regression model these variables as very important. The sector in which the firm operates, the age (if it is younger it is supposed to grow faster), the size (if the firm is small tends to have better growth opportunities), if the owner is independent or not, the legal framework are important factors to growth.

On their research\(^{77}\) Christina Bannier & Sabrina Zahn had proposed another econometric model to explain growth of the firm. In order to prevent the affection of the econometric model by ‘heteroscedasticity’\(^{78}\), they agree in using the log differences\(^{79}\) and the (\( \Delta \text{log SIZE} \)) is considered the dependent variable measured in terms of total assets and number of employees.

\[ \Delta \text{log SIZE}_{it} = a1 + b1L.\text{log SIZE}_{it} + b2 \text{log AGE}_{it} + b3 \text{log AGE2it} + \gamma1 \text{Govit} + \gamma2 \text{ERit} + \gamma3 \text{log SALES} + \gamma4 \text{PROFit} + \varsigma1 \text{GDPt} + \varsigma2L.\text{GDPt} + \epsilon_{it} \]  

(3)

**Methodology**

The main data used in this paper is collected from the Albanian Institute of Statistics (INSTAT) and World Bank Surveys.

We have used some data from the Small Business Act 2012, and the European Bank for Reconstruction & Development (EBRD). The data presented here shows the big importance of SMEs in the employment of Albania and shows the value added in millions of EUR. The estimations here are based on data from Albania’s National Statistical Office\(^{80}\).

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\(^{77}\) SME’s growth heterogeneity- Evidence from regional developments( 2012) page 12

\(^{78}\) The term means "differing variance" and comes from the Greek "hetero" (‘different’) and "skedasis" (‘dispersion’). In statistics a collection of random variables is heteroscedastic if there are sub-populations that have different variabilities from others. Definition from www.wikipedia.org

\(^{79}\) Coad & Hölzl 2010

\(^{80}\) We exempt from calculation firms in forestry, fishing & services such as education and health as well as firms in agriculture.
<table>
<thead>
<tr>
<th>Number of enterprises</th>
<th>Employment</th>
<th>Value added</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No</td>
<td>Share</td>
</tr>
<tr>
<td>Micro</td>
<td>70 637</td>
<td>95.8%</td>
</tr>
<tr>
<td>Small</td>
<td>1 579</td>
<td>2.1%</td>
</tr>
<tr>
<td>Medium sized</td>
<td>1 428</td>
<td>1.9%</td>
</tr>
<tr>
<td>SMEs</td>
<td>73 644</td>
<td>99.9%</td>
</tr>
<tr>
<td>Large</td>
<td>58</td>
<td>0.1%</td>
</tr>
<tr>
<td>Total</td>
<td>73 702</td>
<td>100%</td>
</tr>
</tbody>
</table>

Table I Summary statistics for firms. Source: World Bank (2005) Authors' own calculations

From the data collected on the SBA we can calculate 99.92% of all firms in Albania are SMEs with a number of 209,072 employees and with an added value of $1,410 million.

Analyzing the data from Chart 1 we can state that in Albania the number of employees in the trade industry reaches the high levels by 35,776 persons and the construction industry reaches the lowest level of employees (only by 3736 persons).

Number of Employees in Albania during 2011

Conclusion

The private sector in Albania is mostly composed by Small & Medium Enterprises. They are mostly concentrated in Tirana, the capital city of Albania, in the central area and the coastal area. SMEs are not any more a reduced model of big sized companies, but as an enterprise to which we can find particular and specific features: SMEs display a different scale of organization, operation and challenges.

In Albania the SMEs sector is considered very important and of high priority, because it has adaptability, generates employment and future innovation. From the data collected on the SBA we can calculate 99.92% of all firms in Albania are SMEs with a number of 209,072 employees and with an added value of $1,410 million.

This paper tends to contribute on the debate regarding SMEs’ determinants of growth. Growth in all the models we have analyzed is presented as a dependent variable. The age of the firm is mostly used as an independent variable.

The analysis based on panel data analysis of a set of SMEs in a transition economy as Albania seems to be important. Based on different econometric models presented here in this paper, growth in SMEs can be explained by traditional firm characteristics; such age and size. In some models the sector in which the firm operates is one of the factors influencing growth. Leadership skills and entrepreneurial skills for good firm governance, legal framework also can be considered determinants factors in firm growth.
The growth of the company can be measured in terms of sales, employment or assets and economists state that is a result of exploring opportunities.\textsuperscript{81}

From the empirical evidence (balance sheet analysis) we can find a negative correlation between the size of the firm and the growth. Regarding the age of the firms as a determinant factor in growth we have some ambiguities.

By analyzing the employment growth (as a measure for firm growth) we find the same negative correlation between size and firm’s growth, and the same ambiguity on the age as a growth firm’s factor.

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