

Small Businesses in Albania and Motives of their Bankruptcy

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Abstract

The small business is the place where the individual (creator, motivator) uses his own talents or experiences. The progress of small business is a key factor in regional development of the country. The small business is the vertebral column (spine) of trade economy and for the economies in transition. Although with realized progress, it has to be emphasized that the business climate in Albania still reflects problems which are related with the controlling setting, informality range, corruption etc. The main problems such as barriers and mortality, limited innovations generators etc. influence very much in a business. Dishonest competition, high taxes, inflation, economic crisis and other factors have made that many of small businesses in Albania (the region of Korca) to run to closing. It has to be devoted a special attention to business climate which actually remains to be desired. To eliminating the disagreements with state, the businesses have to respect precisely all the rules in order not to meet with problems and to provide a good progress of their firm. It has to be focused in the problems they meet and in their solution making as many as possible investigations in market. The aim is the efficient organization of business in order to make possible successful transformation of critic moments of a firm.

Keywords: small business, problems, causes of bankruptcy, climate, region

JEL Classification: L26, M13

Introduction

The small business presents a key factor in the progress of a country. Its importance is seen in different economic aspects starting from the fulfillment of need for products and goods, employment which further more brings other effects that influence in increase of population's incomes and in the cyclic mode, further increase (growth) and development of businesses in general. For this reason there are with great importance the factors which influence which are motivating or presenting as the instigator for small business opening, respectively the initiatives that influence for starting of new affair activity.

The small business is a business which usually is created in private property and as such one operating with a small number of laborers and annual circulation relatively small sales. The small business is the

place where the individual (creator, motivator) uses his own talents or experiences. The small businesses usually are presented in the individual form of the dealer, Sh.P.K. (Ltd. Co.) partnership etc. Small business also, can be classified basing on other criteria such as: sales, profile, participation in market etc.

The Role of Small Business in Economy

The small business contributes in employment growth in a higher scale than big business. It is the vertebral column (spine) of the market economy and economy in transition. The business produces for the internal market using mainly the national resources.

The displacement from the ex-state big enterprises in smaller enterprises and private firms increase the numbers of owners with an engagement of a larger responsibility. The increased number of small businesses brings proper flexibility for the society and economy. The small business uses and develops especially the internal technology and capacities. The progress of small business is a key factor in regional development of the country.

In most of the cases the small businesses operate in one of the three following fields:

- a. Easy processing and Construction.
- b. Trading (wholesale trade and retail trade)
- c. Small firms that operates in services' sector.

The Business' Climate

During the last years the contribution of the private sector is estimated about 80% of PBB (Internal Gross Product) and in employment at about 67% of total number of the employees. 99% of the active enterprises are with Albanian capital and lesser than 1% are with joint capital or entirely alien, in which are employed about 13% of all employees.

The number with state capital is only 0,5% and in them there are employed about 20% of all of the employees.

According to the records of INSTAT (Institute of Statistics' Study) the number of private subjects reached at 77,814 persons, which makes up an increase (growth) of 20% compared with previous years.

Although with realized progress, it has to be emphasized that the business climate in Albania still reflects problems which are related with the controlling setting, informality range, corruption etc.

Albania, during the years of transition has built up a broad frame of laws and regulations in order to make possible business functioning in a country that is developed continuously towards an opened and competitive economy.

Prior to mention some problems and issues which has resulted from the practice of application and impact of these laws, let's mention in brief the orientations of legislative developments during this period.

In Albania are ordered by law the sphere of commercial registration, that one for trading companies, licensing, privatization, competition, state assistance, financing and insurances, intellectual proprietorship, real estates, bankruptcy, fees and taxes setting, relationships of work trade, administrative procedures and a rank of other adjustments which are in working evolving process

In experience to date, on the basis of a rank of results and practices of functioning, the Albanian government has made possible to reconsider and improve some aspects of this setting, especially it will reconsider those questions which are related with the application of MSA agreement.

Also, the Albanian Government in frame of plan for struggle towards informality and corruption is in the process of a dynamic improvement of this frame, especially in the function of facilities of administrative barriers, business registration, taxing stratus that after all they will grow the scale of credibility of foreign ad native investors, for legal transparency and honest competition in market.

The government has undertaken a comprehensive regulating reform which makes up a dynamic all-embracing program to creating a regulating attractive medium for new investments, native and foreign. This reform is lead from the achievements of European Union standards, as a promoter of all Albanian institutions in the challenges of economic integration.

Big Problems of Small Businesses

Opening of a new business presents a severe fight of competition; barriers in each side. The main problems of those businesses are: the high scale of "Mortality", poor management, weak financial ratios, non-planning and long-term bureaucratic procedures. According to market's investigators, small businesses are especially sensitive towards the inflation influence, interest's scale level, capital providing, management setting as well as the governmental rules.

Barriers and "Mortality"

The experts of problematic issues say that there exist a lot of barriers that are skipped, where the owners of small enterprises are captured. Experience missing, mistaken location, money lack, incorrect leading (management) with reserves, excessive engagement of capital in financial means and un-planning expansion, are a fragment of barriers in which the small businesses fall down.

"The Mortality" among the small newer enterprises is very high. "The Mortality" scale is very high in the small enterprises. Their existence is grown with their age; so regardless of size, that is why according to the economists, the most critical years of small firms, in principle are the first years. Investigations of the last year of economic institutions have testified that only 25% of small businesses succeed to stand strongly on their feet during the first ten years of their foundation. The scale of their existence after five years of their business foundation is 40%, while in the first year the scale is 81% of new businesses.

Limited Innovations

The recognized characteristics of small businesses are innovations. Thus, the small enterprises often are source of materials, processes, ideas, services and products, while the big enterprises hesitate to provide it. The small enterprises are obliged to be innovative in order to provide the market competition. However, the science, technology and innovation (SHTI), as the developing factors in competitive economies, based on the knowledge, in our country are marginalized, and in a smaller value determined by BPV. As a result of this, the innovative capacity of NMV is very limited.

One of the causes of this, is the sufficient failure of communication between the universities and economy, while there exist as well as the consciousness' failure for the utilization of SHTI for the increase of competition from the sector of small and medium enterprises. Thus, there isn't rescued capital for innovative activities of undertakers, don't exist financial stimulations and facilities for investment in new technologies and in innovations, even don't exist nor the institutions of assistance of NMV in the sphere of technologies and innovations.

Generators

Today, in world there is the opinion that the development (progress) of small and medium businesses and the undertaking support can be an excellent absorber in the conditions of high unemployment and precisely this sector is one of the boosters that can create new work-places, because the gigantic corporations already now have reached suboptimal and they can't hire new employees.

In our country, there is the opinion that there are a sufficient number of registered enterprises and undertakers, thus it has to work still in the programs that lead to the direction (orientation) of generation of small and big enterprises, because they are the fundamental "engines" of each economy.

The Causes of Bankruptcy

Based on the performed studies, more emphasized is the business type that bankrupt more often is the small business. The most part of small businesses everywhere in the world bankrupt within 5 years. Fewer are those businesses which have a continuity of business after these years. Many analysts propound the main issues that when a business bankrupts, and among them will mention:

- 1 In most cases, the new businesses don't renovate their offer. We intend with this, that they continue to offer (supply) to the public the same good, although the change of technology and computers' evolution make possible the renovation of taste and consumers' demand.
- 2 The great credibility in that they trade, ignoring the opinion of others.

Most of the businessmen are very optimistic and more or less they don't want to think if the opinion of their competitors is good or bad. They believe at the product, they sale that possesses all the necessary

qualities. It is important to follow-up two main lines for not to leave the business and its clientele to fall down. At first, the adherence of the instincts, and secondly, moving in a better line than the competitors. (Both of these helps that the business to make progress in time and to deal goods which are preferable from the actual consumers).

1 The slight of financial position that can be caused to a company in a defined moment.

In a fixed moment can happen that the sales for this company to be reduced and the businessmen still continue to think that it is a moment crisis. If, it isn't made a market study, consumers' taste and many other as these, it will happen that your clientele will catch (take) by another your competitor that offers this product, better or cheaper. There are many factors that influence in clientele reduction and the profits of company. Being that the firm wants to have the same profit they hike the prices for the reason that the number of the consumers is reduced in the market beside with their business opening. This is another reason that leads the firm in the lost of the most part of its clientele, and surely in a total bankruptcy of the firm.

2 Nomination in Leading Position of Incapable Persons to Managing.

The greatest attention when you hire somebody to manage your company must be concentrated in three main issues:

- This worker wants to make his/her own job.
- He/she knows how to do the job.
- He/she likes to work with you.

In general, the companies which hire capable workers and ready to face every kind of situation howsoever difficult to be for the company, they don't face frequently with bankrupting situations, even in difficult moments they pass successfully these issues.

3 Analyzing of Consumers' Taste.

It happens in a moment that the clientele to be removed. The first necessary thing is to be analyzed why your good isn't liked? What is new in the market? Which are the articles (issues) that make the competitor's good more preferable etc.? Public's interviewing through questionnaires on that what they would like more and better to be dealt (marketed), new product's test in public and so on.

1. The employment of Individuals who are capable do things that you haven't chance to do, don't know to do, or you have not at all idea how to do. Many of the firms succeed when they are well-completed.
2. Disagreement with State or Government.
3. Product's non-preferring.
4. High taxes
5. Bad Management
6. Disagreement among the colleagues and customers.
7. Dishonest competition.
8. Non-evaluation of accounting results
9. Misinterpretation of financial results.
10. Cost's non-controlling.
11. Imposition by internal control.
12. Very low (cheap) prices of products and services to finding clients or consumers.
13. Ability of marketing and products' sale.

14. Preliminary business' insurance non-transportation.
15. Incorrect treatment of employees.
16. Incorrect planning of business
17. Non-looking for a professional or advising assistance when it is necessary.

Sector of small businesses in the Region of Korca

The number of subjects of Small Businesses that practice activity in the city: Korca is about 2400. In the course of the year 2011 were opened many new businesses, about 300 subjects, but as the consequence of economical crisis that has included Europe and Balkan at the same time were closed about 250 subjects of small business. A part of the subjects during the year 2011 have passed the annual circulation over 8.000.000 Lek and they are turned to Big businesses. During this year are opened a lot of businesses with handicraft propensity such as stonemason, watch-maker, internet operator, embroidery which have been a-priori from the Municipality to conserving the handicraft values and traditions in the city.

For these businesses is reduced the tariff of registration up to the level 0 (zero). One of the purposes of the strategic plan of economic development of the city is: "The Safety of stability and growth of local businesses as well as supporting of initiatives for new businesses' opening".

Problems of Small Businesses in the Region of Korca

A disturbing problem carried in years is also the fiscal evasion. There are subjects that practice activity without paying off the financial obligations towards the state. In order to avoid the fiscal evasion there are used the following methods:

- Verification of documentations kept by the tax-payers which verify sales and purchases realized for the purpose of business.
- Full control in the surrounding of the tax-payer where after the verification of documentation there are realized polls for circulation measurement, with the aim; evaluation of circulation realized through chronometer (timing).
- At the same time there are used also other sources of information with which the tax-payer has operated such the records of the treasury office, records on information exchange etc.
- The control in terrain (medium where activity is practiced) for evidencing of the un-registered subjects.
- The control in terrain (medium where activity is practiced) for evidencing of subjects that haven't paid off the local fees and tariffs.

In case of violations of procedures of local fiscal obligations determine and apply sanctions predicted by the laws in force. There are considered administrative infraction: non-registration or location non-registration of economic activity of the tax-payer or non-

payment of tax within term, which are punished with a fine of 25% of tax's obligation.

The presentation of false or incomplete data is fined with 10.000 lek. If it isn't shown the registration certificate in a visible place is fined with 5.000 lek etc. The tax-payer has to register every location of his own business. The registration for the first time prior to the tax-payer has to present:

- Court decision for registration.
- Personal (Birth) Certificate issued with photo.
- Application for registration where it is reflected residing address of tax-payer, type of activity that will practice as well as the precious address of business location.

Another problem is bad debtors (mortgagers) who are debtors for years and bring a considerable damage to the cash of the Municipality. To solving this problem it is considered important the controlling time after time in the terrain examining the respective documentations. For the repressive measurement taken by the Municipality, blocking banking account of the subjects this contingent even if in reduction continues to be actual and disturbing. The problem of dishonest competition of the business remains main problem discussed time after time by the business association. For this purpose there are organized meetings referring reports with the participation of business association and Municipality in order to reduce as much as possible the fiscal evasion.

During the year 2011, the Municipality has put in application (execution) the program "Stop to Formality", where every citizen or business can call the respective office in Municipality for this program and make notification for each subject that doesn't work in conformity with law. After that, the fees & taxes inspectors (specialists) begin immediately verification in terrain in order to enforce this subject to register in conformity with respective procedures.

The methodology:

This study is based on the results of surveillance for recognition of the problems of small businesses in the region of Korca. In this surveillance were included 240 small businesses, constituting 10% of total small businesses in Korca. For data management, adopted a hybrid analysis combining qualitative and quantitative methods.

The results of questionnaire:

From the businesses taken in investigation in the city Korce, it resulted that 65% of the businesses will go on to operate with the same product, while 25% think to float other product in market. (figure 1)

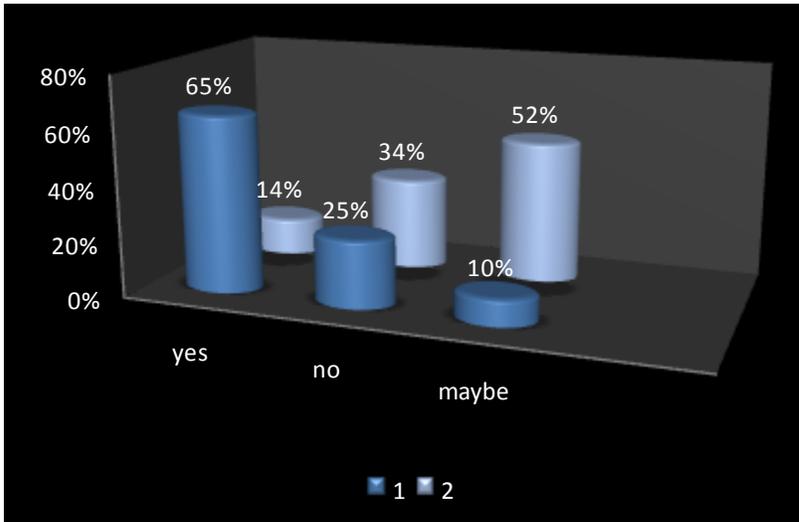


Figure 1: The operation with the same (1) or other product (2)

65% of the businesses are very optimistic, thus they believe in the products they deal and don't think that their competitors' opinion is good or bad. (figure 2)

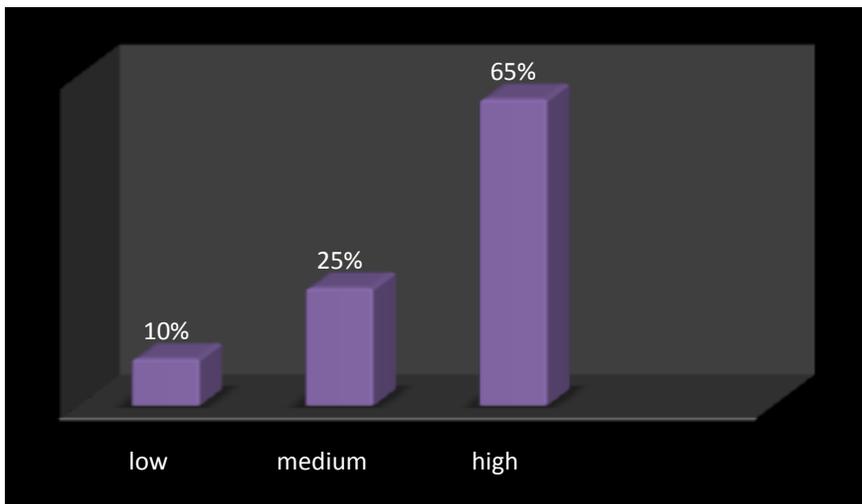


Figure 2: The level of credibility in products

From the analysis of questionnaires it is also observed that 90% of the businesses have the opinion that they have the proper persons that manage and 10% aren't so much sure. (figure 3)

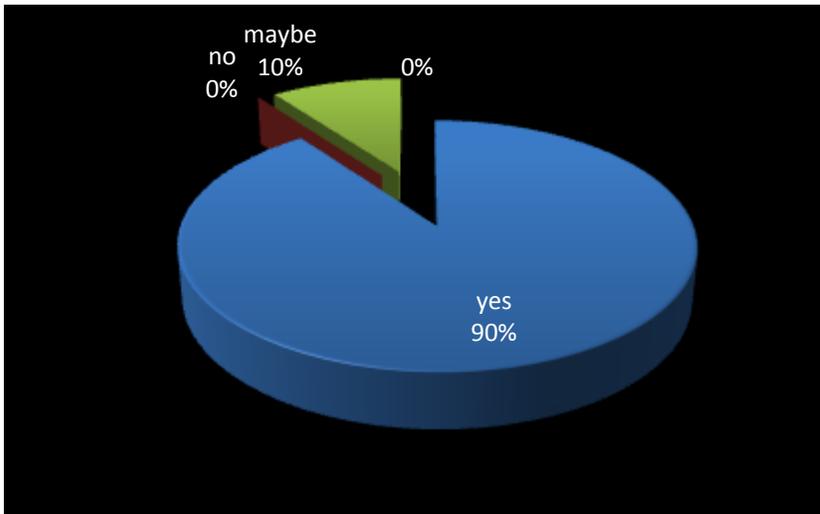


Figure 3: Evaluation of proper persons in business

The most percentage of businesses (65%) thinks that consumers' tastes influence very much in the products' production that they float in the market. (figure 4)

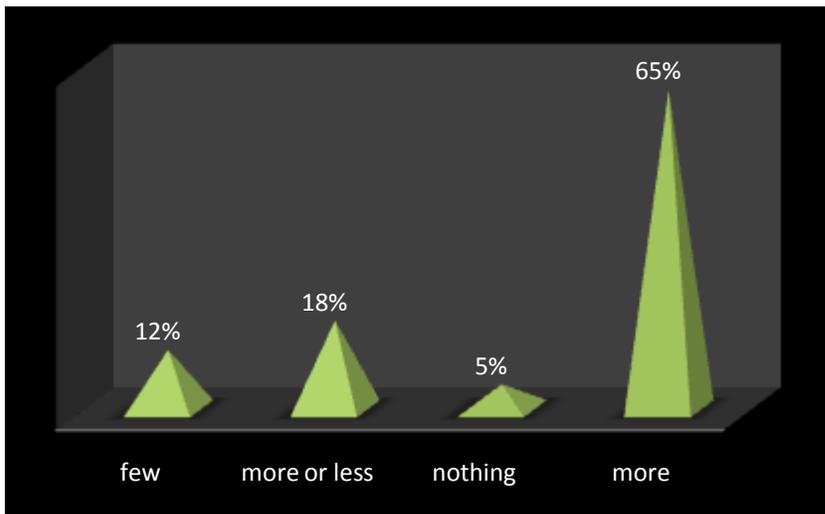


Figure 4: The influence of consumer's tastes in the products' production

From the analysis (examination) of the questionnaires it resulted that 63% have had a lot of disagreements with state, 22% continuously and 5% never. (figure 5)

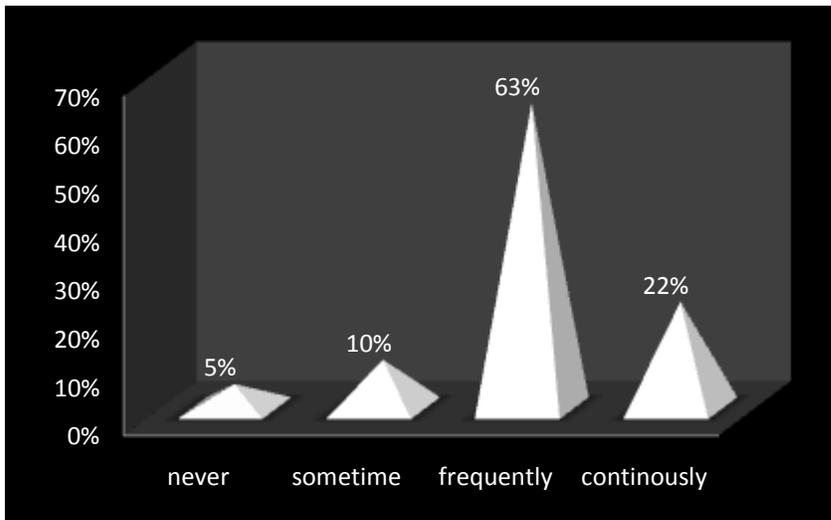


Figure 5: The level of disagreements with state

The most percentage of the businesses (65%) taken in investigation thinks that the high taxes influences too much in the business. (figure 6)

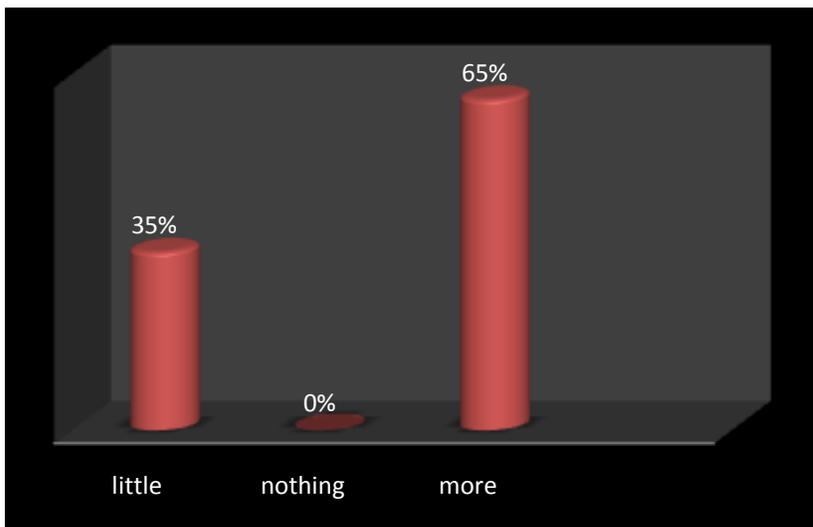


Figure 6: The influence of taxes in business

Inflation is one of the macroeconomic factors very much discussed in the business history. From the results of the questionnaire it resulted that 55% of the businesses, the inflation rate influences a lot of, while 10% it doesn't influence at all. (figure 7)

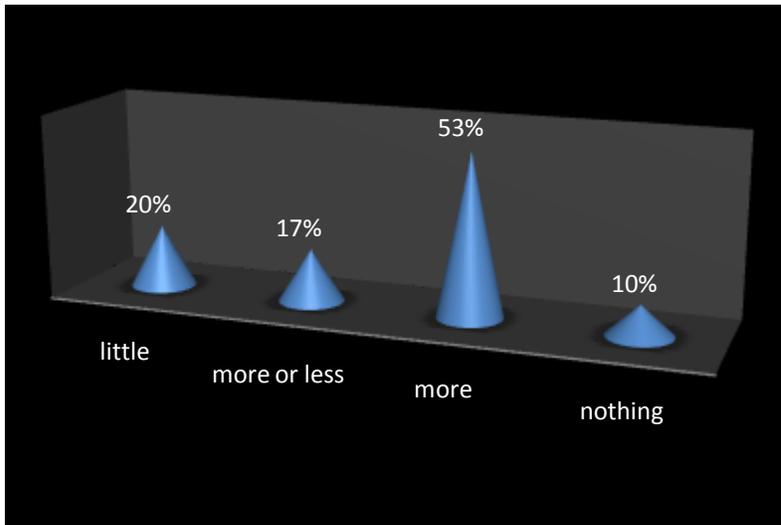


Figure 7: The influence of inflation rate in business

The economic crisis is one of the factors that have a big influence in businesses. That was the result with 70%. (figure 8)

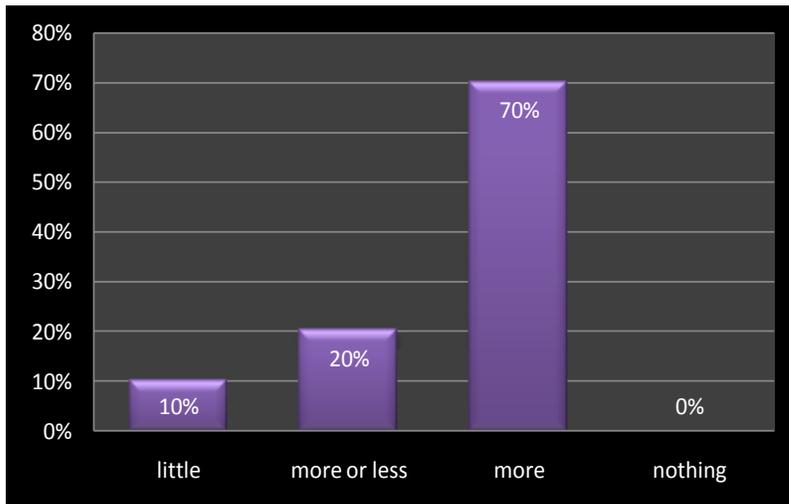


Figure 8: The influence of the economic crisis in business

Conclusions

- The small business is the vertebral column (spine) of trade economy and for the economies in transition.
- The Business climate in Albania reflects still many problems, which are connected with the formality level, regulating medium, corruption etc.
- The main problems such as Barriers and Mortality, limited innovations generators etc. influence very much in a business.

- Dishonest competition, high taxes, inflation, economic crisis and other factors have made that many of small businesses in the region of Korca to run to closing.

Recommendations

- It has to be devoted a special attention to business climate which actually remains to be desired.
- To eliminating the disagreements with state, the businesses have to respect precisely all the rules in order not to meet with problems and to provide a good progress of their firm.
- The local government has to reduce as much as possible the economic formality in the region of Korca.
- It has to be focused in the problems they meet and in their solution making as many as possible investigations in market.
- The efficient organization of business in order to make possible successful transformation of critic moments of a firm.

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