

**Ownership Structure and Management  
Control in Small and Medium Enterprise in  
Tirana Region**

**by**

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## **Abstract**

This thesis aims to analyze the ownership structure, management control and agency problem in small and medium enterprises in Tirana region. Data's for this research are collected through a survey directed to owners and managers of small and medium enterprises in Tirana. This research shows that the majority of SMEs in Tirana do not have a manager in their company. If they have he or she is a relative person with the owner of enterprise and more than half of those businesses have started their activity without a business plan and even years after of operating in market they don't have one.

**KEYWORDS:** Small and medium enterprises, management, ownership, education background, age of entrepreneurs.

## **Abstrakt**

Ky punim synon të analizojë strukturën e pronësisë, kontrollit mbi menaxhimin dhe problemin e agjencisë në ndërmarrjet e vogla dhe të mesme në rajonin e Tiranës. Të dhënat për këtë kërkim janë mbledhur përmes një ankete drejtuar pronarëve dhe menaxherëve të ndërmarrjeve të vogla dhe të mesme në zonën e Tiranës. Të dhënat nga anketa tregojnë se shumica e NVM-ve që operone në Tiranë nuk kanë një menaxher në kompaninë e tyre, nëse ata kanë ai ajo është një person i afërm me pronarin e ndërmarrjes, dhe më shumë se gjysma e këtyre bizneseve kanë filluar aktivitetin e tyre pa një plan biznesi dhe madje edhe pas disa viteshoperimi në treg ata nuk e kanë një të tillë.

**Fjalët Kyçë:** Ndërmarrjet e vogla dhe të mesme, menaxhimi, pronësia, niveli arsimimor, mosha e sipërmarrësit.

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## **Declaration Statement**

1. The material included in this thesis has not been submitted wholly or in part for any academic award or qualification other than that for which it is now submitted.
2. The program of advanced study of which this thesis is part has consisted of:
  - i) Research Methods course during the undergraduate study
  - ii) Examination of several thesis guides of particular universities both in Albania and abroad as well as a professional book on this subject.

Armand Hithi

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## **List of Abbreviations**

SMEs- Small and medium enterprises

EU- European Union

RBV- Resource based view theory

INSTAT- Institute of statistics in Albania

GDP- Growth Domestic Product

METE- Ministry of Economy Trade and Energy

## **List of Appendices**

Appendix A: Survey used for the study.

## **Introduction**

Administration of companies has attracted attention and is widely extended nowadays also in Albania. It is important and a requirement that companies should follow principles for a good leadership. It should be specified in this context, the separation of ownership from management of the company.

A good management means recognition, observance and implementation of law but also a high culture in leadership and company management. Principles of good management have as their key element the responsibility, honesty, confidentiality, transparency and information disclosure. Good management of companies increases security, integrity and efficiency of the market, helping in economic growth and financial stability.

Enterprises in Albania were reinforced after 90s, they were born as a need for self-employment. Due the lack of not understanding the functioning of the market, entrepreneurs neglected the economic knowledge that they themselves or their employees possess. This is one of the most important problems of Albanian entrepreneurs; they do not understand the importance of division of labor. Hiring qualified people for them is more an increase in spending and they do not consider as an increase in business productivity and flexibility because education of employees is consider as one of the competitive advantage of the firm.

Agency problem is one of the most important problems that concern the shareholder of a company. Problem with agency problem in Albania is that it is difficult to separate the owner (shareholder) from manager of the company. This problem happens for some reasons. Firstly lack of education background, Albania entered in an open economy in 90 when it began the politic, economic and social transformation of the county to a market economy. In the social regime management was known only from a small part of society, the major part of society worked in agriculture and the management was compared with ownership always. Secondly, nowadays in Albania the economy is oriented more in small enterprises that don't have the strength to have a manager, so it remains the owner to make the role of manager in order to reduce costs.

The purpose of this study is to highlight the importance that why it's important the separation between owner and management and the effect that this has in the business. Survey done and research questions are connected with this factor.

The objects of this study are small and medium enterprises that operate in Tirana. In the survey are involved 100 businesses that have or don't have a manager. The methodology that will be used is going to be mostly inductive, that is gathering data and drawing conclusions. The expectation of this study is to provide a theoretical, practical and methodical contribution about the importance of having a good manager or being a good manager in Albania.

## **Chapter 1 Business and forms of organizations**

Business is an economic activity. Often trade, i.e. sales and purchase activity, is understood as a business and other areas of economic activity, which in fact are business activities, go without getting noticed. Business activity includes services, manufacturing, manufacturing process, and distribution activities, so everything that anyone can produce or sell in order to have profit. Business activity adds value to the production factors.

Many people have started their business activity without the proper education or experience, however they have been successful, but their success has been temporary and the bankruptcy rate has been high in this category of businessman's. In the present time of market globalization, fierce competition, also complex environment with a relatively high scale of variability the future prediction and the insurance of a satisfactory profit mostly is doubtful and accompanied with the risk of bankruptcy. On the other side, consumers and public opinion have become more aware, even the state is more preoccupied than before for the "game rules" to be applied rigorously from business, but even the quality of products, health and the security of consummators to be within standards.

In order to include a briefly some fundamental reasons why business should be study, it can claim at least four of them and namely:

- To be a well-informed consummator and investor. People can't buy anything without making a business transaction. Everyday hundreds and thousands transactions happen where a considerable number of people are involved. The study of business system that operates in our country makes possible the realization of smart decisions to buy a product or to invest effective.
- To be a good employee and more competitive in the market. Most of the individuals are employed in private sector, public administration or non-profit organizations.
- To enter in a business as entrepreneur. To be a successful person in business people must not only master skills like effective employee, but in the same time they must be ready for unscheduled work and with the risk of failure in the head every time.
- To be a successful manager. You can't be a successful manager without deep knowledge in your business activity and the environment in which business operates.

Small and medium enterprises are the base of the economic system in free markets. For many people owning a small business, due to the great independence and financial income that brings, it is too enticing.

Evolution of SMEs is an essential element of economic development. Strategic Importance of SMEs is recognized worldwide for some main reasons: firstly because SMEs contribute more than corporations in the increase of employment. Secondly SMEs are vital in a market economy but also in a transition market. In a long term it can provide the major part of employment.

## **1.1. Situation of small and medium enterprises in Albania and EU**

Business organizations, regardless of their size, location or type of economy in which they take place, have to cope with the phenomenon of competition. Now the challenge for them is to have a successful competitive position. Dealing with this challenge is heightened by the globalization of businesses, changing economic cycles, different economies of scale expansion, as well as consumer preferences change. While facing these competitive challenges, some organizations are able to cope with various problems and issues, while others cannot. In this way it can be said that the performance is not where it should be.

The importance of competitive advantage and distinctive competencies that serve as the main determinants of success and growth of the organization is increased significantly in the last decade. Many studies have been done with the focus on their specific characteristics of business organizations, which are unique and add value for the final consumer. So it is understandable that in all sectors, firms need to know and be clear that achieving competitive advantage is the most challenging issue that they should face.

Coping with these challenges is more difficult for small and medium organizations that operate in all countries. Developed countries, those less developed and those in progress, already recognize the importance of development of small and medium enterprises (SMEs) for their economic growth. Small and medium business is the backbone of the national economy, the basis of the economic system in a free enterprise.

The main specifications of SMEs are innovation, flexibility, direct relationships at work, employment opportunities, management can be done by one person, the capital is limited, the independence of the owners, taking quick decisions etc. In these businesses exist a higher centralization in the case of decision-making, there are a limited number of employees who participate in decision-making but also the owner mainly does decision-making. In the initial phase of development of SMEs, only a person implements the majority of cases management. Managers or owners of these businesses possess general knowledge, have unlimited authority and responsibility in managing these businesses.

SMEs dominate many important industry sectors such as retail, services and construction and provide a decisive relation in, the supply chain (Sascha Kraus, 2007).

The statistical definition of SMEs usually varies from one country to another. In our country based on the Law for SMEs amended in 2008, companies are classified as: micro, small and medium enterprises. The driving force of economic development of the Albanian is private sector. This sector is constantly growing; 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 annual balance sheet. Classification based on the number of employees is as follows:

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

This division is made according to EU legislation that considers small and medium enterprises (SMEs) those that have less than 250 employees (before this law in Albania considered as small and medium-sized ones with less than 80 employees), with an annual turnover not exceeding 50 million euro and / or a balance sheet total not exceeding 43 million euro(Punes, 2011).

**Table 1 Definition of SMEs in Albania and EU**

Enterprise	Albania before (million Lek)	EU (million Euro)	Albania now (million Lek)
<b>Micro</b>			
Employees	5	10	0-9
Turnover rate	-	2	No more then 10
Assets	-	2	-
<b>Small</b>			
Employees	6 to 20	50	10 to 49
Turnover rate	40	10	No more then 50
Assets	-	10	-
<b>Medium</b>			
Employees	80	250	50-250
Turnover rate	80	50	No more then 250
Assets	-	43	-

According to representatives of the Ministry of Economy, Trade and Energy in 2008, those changes are made in the approximation context of national legislation with the European Union legislation. Another reason for the change of the law is also consideration to help Albanian companies, to make possible the absorption of donations from EU scheme for small and medium enterprises (Ministria e Ekonomise, 2008).

**Table 2 Number of enterprises and employment in the EU**

	<b>Micro</b>	<b>Small</b>	<b>Medium</b>	<b>SME</b>	<b>Large</b>	<b>Total</b>
<b>Nr of enterprises</b>						
Number	19,143,521	1,357,533	226,573	20,727,627	43,654	20,771,281
Percentage	92.2	6.5	1.1	99.8	0.2	100
<b>Employment</b>						
Number	38,395,819	26,771,287	2,231,0205	87,477,311	4,231,8855	129,796,166
Percentage	29.6	20.6	17.2	67.4	32.6	100

*Source: Eurostat/National Statistics Offices of Member States/Cambridge Econometrics/Ecorys*

As we can see from the above table, SMEs represent about 99.8 percent of the enterprises in 2012<sup>1</sup> in EU, which counts in 20.7 million businesses. The majority of those, around 92.2 percent are micro enterprises, 6.5 percent are classified, as small and 1.1 medium and as large enterprises are accounts around 0.2 present in EU.

SMEs sector in Albania has a smaller structure scale than EU. The part that micro enterprises occupy in the total of all enterprises is around 95.2 %, which is bigger than the European Union average 92%.

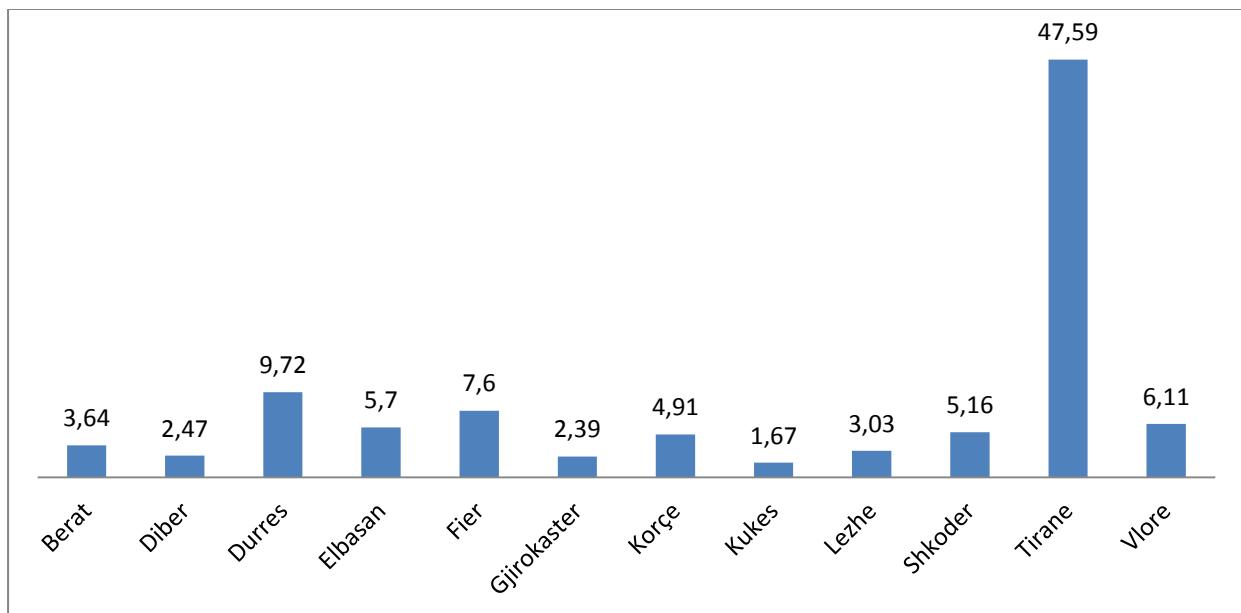
SMEs contribution in our economy, as measured from the added value 75%, is bigger than the average of EU 58%. Following same model, the contribution of microenterprises in employment is 48 %, bigger than average of EU 30%. Therefore the total contribution of SME sector in Albania in employment is 83% more than the average of EU 67 %.

SMEs sector has a substantial contribution in the economic growth and employment. Based on INSTAT data's, contribution of SMEs in GDP is more than 73 % and in employment section more than 71 %.

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<sup>1</sup> According to the “2012 Index of Economic Freedom” by Heritage Foundation and Dow Jones & Company, Inc. and Wall Street Journal, Albania marked 65.1 points, being ranked in 57 places in world and in 26 from 43 countries in Europe.

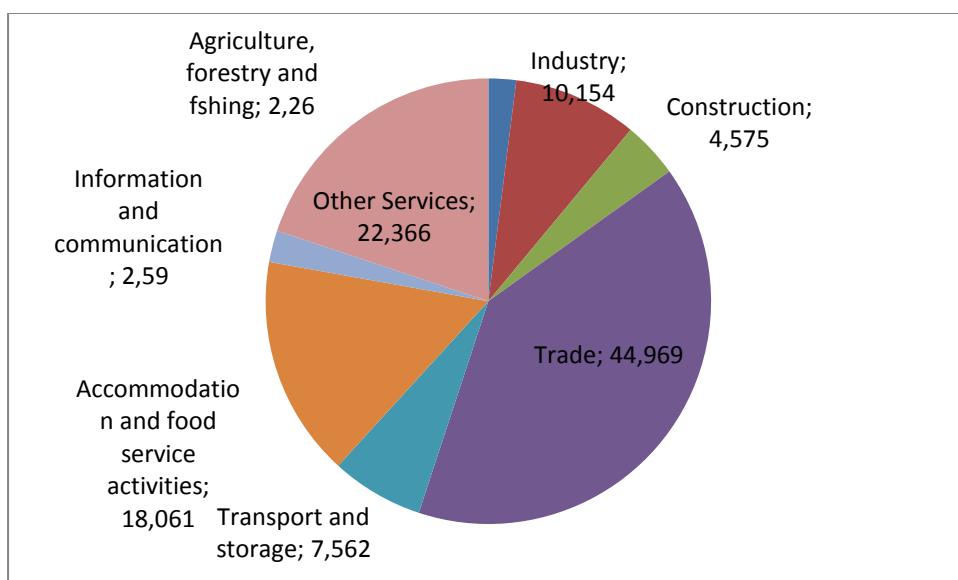
**Figure 1 Distribution of active enterprises by region.**



Source: INSTAT 2014

Also the number of active enterprises in the end of 2013 was around 106.503. Compared with active enterprises in 2005 it has a growth of 65 percent. The number of entrepreneurs that are females is 17 percent. More than 50 percent of active enterprises operate in region of Tirana and Durres, in Elbasan, Diber, and Korçe is notice only a small growth of entrepreneurs leaving the situation almost in the same level of one year before (INSTAT, 2015).

**Figure 2 SMEs according to the sector of the economy**



Source: INSTAT 2014

Based on the type of activity that these SMEs are operating we can note that trade (wholesale and retail trade) is the sector where businesses operate more with 44.969%. This can be explained by the fact that this type of activity represents less barrier and requires less capital to initiate a venture, followed by other services 22.36%, the sector of hotels, cafes, restaurants with 18.061%, industry by 10.15% and transport and telecommunication 7.56%, operating activities that fewer businesses are construction, agriculture and fishing respectively 4.575% and 2.26% (INSTAT, 2015).

## **1.2. Main factors of business bankruptcy**

Business managers, most of the time faces with a series of problems, which some are unique but the main risk they fear most is the risk of bankruptcy. It's a fact that in small businesses this risk is in high levels.

There are hundreds thousand of businesses that are open every year but only less than half of them are successful. In general more than 50% of them bankrupt in less than five years from their opening and from all new businesses opened recently in Europe, 87% survive in their first year, 68% survive for three years and 55% survive until the end of the five years (Development, 2000).

In today's literature it's analyzed and debated mostly about causes of business failures and in general and notably small businesses because of their importance and the place it takes in micro economy. Mostly are treated a large scale of factors as insufficient sales, small profit, high costs of economic activities, etc.

Considering carefully these factors we can conclude that the main reasons of failure are two and concretely:

- **Lack of managerial expertise.** Often the decisive factor of business in success or failure has been the role and professional powers of managerial equip. Many businesses, also in Albania, bankrupt because of lack of managerial expertise. In Albania, like in other eastern countries, transition to an economy based on the principles of a market economy, changed the concept and role of manager, which should be oriented and be successful in a field where the rules were almost unknown to them. From this point of view we can say that management was a new science and profession in order to be effective in their work Albanian managers had to learn from the beginning.
- **Limited financial capabilities.** Not often many problems in which small businesses confront that lead to bankruptcy are their limited financial capabilities. According to

this field literature almost 60% of small business are financed from own entrepreneurs resources but not least are the cases when they are financed from their relatives and known. Also, in many countries including our country, the income from people who work as emigrants in other countries have been one of the main sources of funding for these businesses. So it's clear that small business is less likely to compensate bad investments than large businesses, consequently their investments have a higher risk. It also negatively impacts on their access to bank loans. In general banks see as a risky investment giving bank loans for these businesses.

### **1.3. Declared problems of SMEs**

Development of SMEs and their contribution to long term economic stability depends on their size and structure, which under better conditions of developed markets, allow them to have the flexibility and ability to adapt to the conditions of competition fierce. The following facts refer to different problems that are noticed in the business environment in our country but also in other countries. All those mentioned above are considered important to determine which determinants of the success of SMEs in Albania are. SMEs have had difficulty to be worthy competitors every day. Concluded from different data's and studies, the main cause for the small size of SMEs is because their way of doing business. These firms do not change their methods to compete in a market. Consequently, these companies are unable to cope with new businesses, which tend to be more creative, have better ideas and much better skills to use different networks of communication (Johannisson B. , 1988) compared with traditional firms (this idea was presented initially by Johannisson and Peterson, 1984)(Johannisson B. a., 1984). However, the view of worldwide business at the local level is much more complex than that. Businesses are not only faced with competitive pressures increasing and changing consumer dynamics but they are having difficulty with various economic activities which are related to the realization of their goals to be much more complex. Dynamics of changes in the demographic and geographic consumer buying patterns, coupled with strong competition, are pressing for businesses wherever they may be found. The entry of multinational companies and chain stores that offer low-priced goods, are threatening traditional businesses. Those problems were added even the spaces with higher prices, the need to invest certain amounts of money for advertising and training, lack of R&D and the main problems arising from the lack of economies of scale and competitive cost structures. The lack of competitiveness, the ability to change and to solve numerous problems and to extend their life cycle has created a major obstacle to success. As a result of the lack of actions and reactions to changes of the

market, a considerable number of businesses are closed. However, all these problems have not diminished the importance of SMEs.

Changes in product design, in service delivery, in regulations all in addition to consumer preferences have placed tremendous pressure on the management and development of SMEs in Albania. This happens due to lack of skills for innovation and vision and neglect to update their strategy. Whatever the reason are, the negative effect seems ubiquitous and cost many firms on their competitive advantage. These concerns were analyzed long ago by scholars like Bruno, Leidecker and Harder (Albert V. Bruno, 1987) who claimed that the changes arising from the loss of competitive advantages are and continue to be deeper than they appear and be analyzed more important in landscapes of the 21st century. Local SMEs, on the other hand, tend to operate in the traditional way. They are led by people who have had compulsory education, and have spent all their time to operate and supervise the activities in the firm. Often, the time spent prevents the vision of the owners, drafting plans, creative skills, etc. The opposite occurs with major stores and corporations where the owner employs skilled managers to oversee the activities of the firm, leaving him time to seek new ways to further develop its business. The problem of location and physical infrastructure becomes an issue more and more important. Many small firms are in smaller buildings, often without air conditioning in city centers where there are no parking spaces. Traffic and lack of parking lots, lack of air conditioning, lack of adequate lighting and innovation, and not to mention the unsatisfactory environment, makes SMEs unappealing to new customer trends while new stores are more attractive, have more atmosphere and physical facilities, to stay open with long hours, provide goods on credit and have a variety of services. Customers today often prefer large shopping malls and discount stores. This fact makes it very necessary research to discover what makes the competing firms and how to revive their desire to be creative and innovative.

Marketing Professionals (Doyle, 1998)(WAI-SUM SIU, 1995)(Philip Kotler, 1994) affirmed the need for a study of that kind. Kirby and Siu reported that there was negligence to implement specific studies on the competitiveness of SMEs, including not using new marketing techniques. From economic perspective, the economies in decline are facing by organizations worldwide, since in the mid-2000 and are causing more erosion and competitive pressures for firms to be successful. This has led on seeking ways to gain support from all sectors, required more resources and development opportunities. Current unemployment is making consumers more cautious, and businesses more and more are competing on price than in services, compounded by customer goals. Consequently, most of

them, regardless of size or country of origin, are looking for ways to revise their strategy and allocation of resources, as well as updating the analysis and scanning the environment to select routes suitable to be and serve to increase their profitability. Reconstruction, innovation, export, create alliances and internal efficiency seem to be the only way, according to published articles and literature, that business organizations, use to compete in a new economy. Developing new ways to achieve success are becoming a new model.

Continued public access to computers and electronic business transactions or e-business, and changing consumer patterns has deteriorated scope of competition, especially in gender and sector. The emergence of electronic trade has a profound impact on the industry as well as individual companies in terms of the nature of competition and competitive advantages (Robert A. Pitts, 2000). Customers are able to buy online even by phone, making success and survival of the SMEs more difficult. One of the main reasons for this phenomenon is that many SMEs are not keen on technology development or perhaps doesn't have the capacity to take advantage of it. Of course customers benefit from this scenario of the increased competition. However, if SMEs would use this information to have advantages in the design of their marketing, the opposite results may burst. Computer and Internet have catalyzed the growth of knowledge economy by enabling people to codify knowledge in a digital form easily transmitted around the world. People who have access to this new wave of information technology and communication, broadly defined as technology that can be used for the transmission and processing of information - are part of a society of information relating to a virtual network that constantly creates and distributes new information. This technology has accelerated the pace of globalization and increased complexity of business practices because they must be familiar not only in their local context, but also with global developments. Knowledge, change and globalization are the driving forces of the new economy. The knowledge economy has affected SMEs positively as well as negatively. The impact on the positive side occurred because knowledge economy relies heavily on information and communication technology, which has led to the rapid growth sectors of information and communication technology. On the other hand, support for information and communication technology in the knowledge economy means that these SMEs are not yet adopted with this technology will have difficulties to survive. Electronic businesses are becoming common in developed countries, so those SMEs that do not have this capability will not be selected as business partners. In addition SMEs who haven't adapted fast pace and increasing complexity associated with the way of doing business will fail to increased competition as a result of globalization. The effect of these economies and socio-economic changes, that has effect on

size, business sector and gender of the owner, has affected the SMEs. It seems that the constant change of the nature of business and the apparent inability of some small businesses to cope with numerous environmental challenges, have affected many SMEs. While statistics also report a large increase in bankruptcies or businesses closed, then it becomes more and more important and necessary to study what should SMEs do to remain competitive and to develop and maintain the needed skills to compete and survive.

## **Chapter 2 Small and Medium Enterprises effects in economy**

Small and medium enterprises have a critical role in economy and development of a country, their contribution to economic growth, employment opportunities and social development is important. Researchers have recognize the great importance that they have (Colin Gray, 1991)and they are considered as "the engine of the economic growth"

In the previous years, studies have had in their objective studding of large business. This has happened because until the 1970s, economic growth was mainly achieved through mass production that was offered by them. Since then, there has been a different trend towards "reducing production" (Rovere, 1998)and this has significantly increased financial importance of small businesses. Regarding their researches, for a long time, there dominated a silent assumption that organizational theories and models developed on large businesses were directly applicable to small and medium enterprises.

There is no doubt that small businesses remain economically important in every society that is free industrialized. They participate at almost every sector of the economy, researchers made by Binks and Coyne conclude that SMEs continue to provide a high level of employment not only in traditional industries such as construction, but also in new sectors such as professional and scientific services. (Martin Binks, 1983) Small businesses represent the majority of businesses in all economies in the world. They also give a great contribution to production and employment in the private sector, a contribution that is increasingly stable (David Storey, 1996).

During the period of transition, from centralized economy to a market economy, there have been many new incoming firms, where most of them are small and medium newly created. According to this it is very important to address the question of what kind of entrepreneurs have coming in transition economies and what are the characteristics of individuals and environmental conditions in which these entrepreneurial activities are developed, and moreover which are the main functions of entrepreneurs (Besnik A. Krasniqi, 2011). Targeting these questions will enable us to identify the level at which these entrepreneurs differ from those in developed market economies, or more specific, in what conditions these firms are created and how those structural systematic changes in transition economies create entrepreneurial behavior and development of entrepreneurship. Also it is important to recognize the role of context because this "not only establishes the role of small enterprises but also the structure and performance"(Charlie Karlsson, 2003).

The most cited definition in the literature of management is ‘it is about a complex system of rules that have to insure an adequate performance with the investment capital from the investors. It is a clearly perspective based in the relationship of agency and sometimes it refers the separation of property from control (Andrei Shleifer, 1997).

Contractual relationship between manager and shareholders is in basic of corporate governance discipline (corporate governance). Terms of management or governance of an enterprise arise every time they are verified two conditions (Hart, 1995) firstly when we confront with a kind of problem like agency problem, or rather a conflict of interest, which include member of organizations whether owners, managers, employs or customers. Secondly when the transaction costs of this agency problem cannot be solved through a contract. In line with this idea, management is viewed in literature (STEVEN N. KAPLAN, 1998) as a synonym for authority, directions and control. The principle of authority arises exactly from a lack in contract or an invalid contract.

## **2.1. Resource-based view RBV theory**

The theory based on the resources of the firm, assumes that every organization is a collection of unique resources and capabilities, each of which provides the basis for its strategy (Barney J. , 1991). The theory is based on the view that the internal environment of the organization (in terms of its resources and capabilities developed) is essential for determining the strategic decisions compared to the external environment (Grant, 1991).

From the perspective of the resource-based view, small enterprises should be analyzed by resources, developed skills and competencies to manage and develop competitive advantages, whether they are sustainable or not. In the proposed model, the performance of the firm rests on the entrepreneur and strategy choices he or she makes.

Penrose, (Edith Penrose, 1959)was one of the first researchers and supporting the resource-based theory. First recognition of this theory started in the 1960s when many other researchers suggested that business organizations can have sustainable advantages competitive by implementing strategies that support the strengths of the organization in the internal environment of it, but due minimizing external threats and avoid gaps or internal weaknesses. Penrose later developed the theory focusing on entrepreneurial services and objectives of the owners. For her, assets and unique capabilities of the firm were important factors that increase the performance of the organization, which then lead to increased competition and achieve benefits. Regarding the origin of competitive advantage, Penrose

states that its origin is in the available resources or in competencies that firms possesses, which are often intangible assets such as skills and reputation. These assets are relatively stationary sources and should lead to the choice of strategy.

Discussing the role of manager and deployment of resources, based on the viewpoint of resources also addresses how advantages for some companies occur in open competition period as those in our country. One of the assumptions is that this study can contribute empirically. Further, the contribution of RBV theory, in the current context is also involved in the study of entrepreneurship literature. Traditionally, the focus of literature for the enterprise has been on the individual or entrepreneur in its socio-demographic characteristics and limited decision-making.

Furthermore, studies by Hofer and Schendel(Schendel, 1978) suggest that the source of competitive advantage is rooted in the firm's resources and capabilities. Barney also found that resources, among others, include capital equipment, each employee skills, reputation and brand names. Many authors have reported even though there are resources that must also exist managerial capacities. To clarify this (Jeffrey E. McGee, 2000) differs from resources capacity, meaning that no monetary value can be assigned to them, as is the case of resources that are tangible and measurable. All those observation meet in one point that one of the reasons of failure of SMEs lies in the priorities of resources and/or use of them.

When Penrose (Edith Penrose, 1959) debated the relationship between firm performances and increased claimed that managers generally try to increase the benefits of the firm. Moreover, it assumes that managers, unlike owners, are in control of operations of the firm. Thus, it concluded that the managerial capacities along with the role of decision-makers play a critical role in allocating resources. The way these capabilities are designed would bring successful performance.

Thus, distinctive competences or the potential for growth found inside each firm include financial, physical and human resources and experience, leadership, ideas and control of entrepreneurs (Gibb, 1991). Empirical studies on the sources found in studies of large firms, lacking analysis of existing resources of SMEs. Rather, it was found that smaller firms lack key resources such as technical capability and management, organizational adaptation and the ability to search or to use the technology (Charles W.L. Hitll, 1992). Despite economic change, the owner must be able to transfer his knowledge or experience of its staff. This leads to the need to organize the business as a structure-based system, which can reproduce and sustain itself without the presence of the owner. If the system is implemented, the owners will be able to plan the time and be able to determine any distinguishing competencies that they

may have gained. The profitability of a business depends both on the way in which it holds a competitive advantage compared with other businesses in the industry, as well as the benefits of the industry itself. Thus, identifying, maintaining and keeping the distinctive competencies will gain more. Also, the viewpoint based on the resources is focused more on core competencies. It is being used more and more to define and explain why a company is more successful than others, though studies are directed at a corporate level. Yet even the use of viewpoint based on sources, is believed that has it apply in firm-level, studies done by Kesler, Koldstadt and Clarke (Kesler, 1993) published that inside the business environment, some firms are too successful while others are based on power generated. These authors also reported that many small businesses have been successful not only because their owners have overlooked changes, new trends and the environmental analysis of their business cycle.

## **Chapter 3 Importance and necessity of management**

Human society wouldn't have been what it is today without the existence of managers who manage its enterprises (Drucker P. E., 1974). Nowadays possibilities for progress are closely related with the quality of management particularly. Drucker considers the effective management like the main source of developed countries and an indispensable source for their further development. Today potential opportunities for progress are closely linked, especially in quality management.

All the organizations, small or large, public or private, profit-oriented or not and regardless of the exercise areas where their activities have one thing in common: the need to be managed. Each of them, to achieve the ultimate goal involves a series of human, material and financial. According to Drucker (Drucker P. F., 1977) one of the most prominent authors of the management, the main task of management is "to achieve specific purpose and mission of the enterprise, to do productive work, while the employee to achieve results and manage the impacts and social responsibilities". Researchers Luthans and Hodgetts (Fred Luthans, 1992) gave a simple definition of management: "Management is the process of setting objectives and coordinating the efforts of employees to achieve them". Some researchers and contemporary authors give the definition widely accepted to management in a more appropriate and in the same time remaining within his essence: "Management is the process of achieving organizational objectives by working with people and through people, and other organizational resources" (Samuel C. Certo, 2006). This contemporary concept shows that management has three main features:

- a. It's a process that involves a series of activities ongoing and interconnected,
- b. Focus on achieving organizational objectives, and
- c. Aims to achieve these objectives, working with people and through people, as well as other enterprise resources.

The term "management" is used in many cases instead of the term "administration". In fact, management is part of the management process, which has to do with the design of systems and procedures, in order to achieve these objectives. In other words, if management is a whole, management is just a part of it.

Managers are the main costly source and the most important for any business. Practice has proved that, in many cases, business success or failure of the main factor has been the ability or inability of the management team. An enterprise needs a manager:

- a. To ensure that the enterprise implements its basic purpose and efficient production of products and services,
- b. To design and maintain the stability of the operations of the enterprise,
- c. To design strategy and entrepreneurship adopted in a controlled manner against environmental changes,
- d. As an official authority that manages the organizational system (Mintzberg, 1971).

Undeniably the role of entrepreneurs, from this point of view, is taken more into consideration. His abilities to exploit resources, to analyze the environment and innovation are particularly important based on his personal skills and education. The importance lies in the ability of the manager or owner to develop resources that will add value to his firm in the way that the projects that value and to develop sufficient factors that would ensure the firm's market value. Spanos and Lioukas (Lioukas, 2001) argue that both his and Porter's perspective, agree on the importance of achieving an attractive position or a competitive advantage as a desirable outcome.

Some authors, including Barney, Peteraf (Barney M. A., 2003) and Conner (Conner, 1991) have examined the relationship between resource-based views and based theory of determinants of industry strategy. Other authors have managed to find empirically their relationship specified that research findings support the idea that above all the effects of the company seem to outweigh the effects of the industry.

Moreover, these analytical perspectives, if the entrepreneur does in proper form and select the allocation of resources more accurately strategy for the company, the performance will increase significantly.

If the opposite happens then the firm goes bankrupt or fails. To clarify this, the theory based on sources considered important the role of entrepreneurs, though and Penrose (Edith Penrose, 1959) considers as the key element to increase or decrease the performance of the firm. Even Fahy (Fahy, 2000) considers crucial his role. In fact his role is very important indeed. He is seen as instrumental in the progress and performance of the company and achieving added value, which is so important to consumers and the public. Penrose (Edith Penrose, 1959) writes: "Productive Opportunities" of firm include all productive possibilities that the owner/entrepreneur see and benefit from them.

From this point of view, besides the role of the manager, the size, the sector in which the firm operates, the gender of the owner can play an important role in the performance of the firm.

Also, the company must reach a certain size to be performed properly. Although the resource-based theory focuses on internal environment which it sees as crucial for success.

Consequently, the owners / entrepreneurs of SMEs are important from many aspects, not only for the creation of jobs. Their perceptions of the future of business are applicable to the sector in which they find themselves and so provide a balance and generate GDP (Gross Domestic Product). Some authors such as Piore and Sabella (Piore, 1984) stated that in a period of economic growth, business owners will be more optimistic and will continue their businesses or to invest in new business ventures. When the economy is in decline, the opposite will happen. Owners will be more pessimistic and reduce their investments in existing businesses and for new ones. Based on this theory, decisions to proceed or not with existing businesses, to invest in new ventures or destroy the old businesses, economic environment will be considered. In this way, this study proposes and examines the external environment as an additional determinant of firm performance.

### **3.1. Managers and entrepreneur's roles**

This role is analyzed from many perspectives on the theory of entrepreneurship. This analysis begins by obtaining a new threat to a stable business and continues with successful businesses to the unsuccessful ones. However, when describing the process of starting a test (making a new risk), the enterprise also knows the importance of decisions about resources. In this way the enterprise sees the establishment of a business as a process almost similar to the creation of something from nothing, by taking a risk, including advantages and disadvantages. The case discussed more is when a new organization appears with a motivated entrepreneur and it provides new chances when it recognizes and uses resources for a strategic purpose. Stabilized firms as well as new business the owner determine the procedures for the use of resources, for example, taking a risk. This process as well as that of managing an existing business is one of the "organizers" (Gartner, 1985), one of the creations of interactive resources. Once the business is established, as in the cases that were analyzed here, entrepreneur/ owner and decision maker transforms his vision and business goals in an existence lasting consisting of a variety of resources invested for a strategic purpose (Edith Penrose, 1959).

Specification, identification and recognition of resources are very important to the success of the Enterprise and ensure the fulfillment of the goals. As stated by Schoemaker and Amit (Amit & Schoemaker, 1993), the distribution of the resource base is a managerial role. However, the main task is to establish effective management of resources in the market.

Barney (Barney J. B., 1986) proposed that the allocation of resources and factors of success of a firm or industry is a difficult task and that success may depend on the accuracy of management expectations about the true value of the strategy. In this way, it is not only important managerial role but the source of competitive advantage. Finally, this advantage can lead to an average return of income (Helfat, 1991). However, the role of the manager is present in all stages of development in the company. During organization process, entrepreneurs will make their own judgments, which resources are more or less important and then use them who suit more to firm. This role, in the case of entrepreneurs, depends on what he sees in the environment and the amount of productive services, which he/she uses to operate the firm.

Managers or owners of the firm, based on their knowledge, experience and education, which in other words show their capacity to act, will decide between their action courses. The logical decision is expected to be among the selection of the best options to be successful in whatever environment they are. However, it's not easy most of the time, as domestic issues hindering decisions such as the expected income and the availability of resources when these new opportunities are encountered. Sometimes the environment plays an important role.

Thus, the successes of any company will not only depend on the existing resources but also the ability of management and how to anticipate changes. Managers will make decisions based on content and about the knowledge they have of the situation. Moreover, since many firms can possess the same resources, are the decisions taken by management, which are dependent on management skills, are those who can make a difference. So it depends on management to exercise these choices for a greater goal.

Seeking opportunities and environmental pressures will increase the importance for management decisions. But, after manager effectively use the resources of the firm, having trained and stimulated personnel to participate in the management process, competitive advantages will be achieved in every direction. The same applies if it becomes possible forecasting and implementing the decisions that need constant updating, controlling, achieving profitability by customer satisfaction and differentiation.

The number of levels in the management increases with the size of the business and workforce and vice versa. The level of management sets a chain of command, the whole authority and status enjoyed by any management position. Levels of management can be classified into three broad categories:

- High level of management – Administrative

- Secondary management level –Executive
- Low level of management - Operational Managers/supervisory/first-line

The high level of management is the highest level of management hierarchy. It consists of the board of directors, chief executive or administrator. Senior management is the ultimate source of authority and achieves the goals and policies of an enterprise. The manager of this level pays more time planning and coordination functions.

Secondary management level consists of branch managers and department managers. They are accountable to top management for the operation of their department. They devote more time performing administrative and management functions. In a small enterprise has only a layer of secondary management level, while large enterprise has two or more layers; most of them have primary and secondary management levels so we have the stratification within the secondary management level.

The lowest management level is also known as operating or management oversight. It consists of supervisors, officers, heads of divisions, inspectors, etc. Supervisory Management has to do with those leaders whose work is primarily personal supervision and direction of staff operations; their main concern is related to steering and controlling function of management.

The word "function" has several meanings, one of which defines it as "the activity for which a person is employed". Based on this definition, we can say that managerial functions are a description of activities that managers perform. The management process consists of several management functions, which, taken together, describe managerial work. There were and still are today different opinions regarding the managerial functions; one defines five sets, someone else four, and so on. Also, there were different views regarding their name. So, for example, the researcher Brech (Edward Franz Leopold Brech, 1975), management functions was planning, controlling, coordination and motivation; organization was not mentioned, but it was meant involving planning and coordination. Nowadays modern managements used to adapt the terms of modern society - Fayol definition (Carter, 1986) granted in 1916, which defined as the management functions of planning, organizing, commanding (he called so the leadership), coordination and control. Nowadays management doesn't talk about control (as Fayol said), but leadership and employee motivation. Despite their number or denomination by different theorists, nowadays is generally accepted by all the core management functions are planning, organization, management and control. Planning, organization and control, which deal mainly with inhuman aspects of management, otherwise known as the mechanics

of management, leadership and management of human resources, which are mainly related to aspects of human relationships, are what we call the dynamics of management. Although at first glance it might seem that the functions are separated from each other - in practice they are linked in a single system. The degree of importance of each of the functions as well as the manager spends time for their performance depends on his hierarchical organization level. Managers considered successful realize these four functions with high efficiency and effectiveness.

To have a business idea, not necessary a new idea, enough to meet the needs of an identified group of customers, must be different sufficiently from products or services offered from competitors in order to survive or success in the market.

Many people base their business in their skills, experience or qualification they have gained in previous work or through a hobby they have had before, others enter in market place “to fulfill the gap” opportunities that existing businesses didn’t use. These opportunities may come as a result of new market identification that grows rapidly or identification of customer requirements where existing businesses aren’t responding correctly.

Entrepreneur is the key of success in starting a new business, by using offered opportunities in the market and so have the right motivation, push and ability to mobilize sources to reach success.

Entrepreneurship is taking over the risk with the purpose of creation and operation of a business. Three sources described below may become productive only when they are combined in an effective way to achieve certain objective. In some cases the entrepreneur manages the business and in some other cases, that in fact make the majority, he delegates these responsibility professional managers.

Forms of entrepreneurship are treated in different ways from different researchers so according to Entrepreneur Leadership Center near New York University (Lab), entrepreneurs are classified in three categories:

- Classic entrepreneurs – people who identify a business opportunity and invest the sources they have to catch that market.
- Internal entrepreneurs – people with an entrepreneurship soul who seek to develop new products, ideas and commercial ventures inside a big organization.
- Changing agents – individuals or managers who seek to revitalize existing businesses with the purpose of maintaining competitiveness in the market.

According to Luthans and Hodgetts (Richard M Hodgetts, 2005) “entrepreneur is the creator and/or organizer of a new venture”. This venture is e new business, new treatment, new product/service or different from existing business.” In “Commercial companies” book (Berberi, 2004) is noted, “Entrepreneur is called a physical or juridical person, who undertakes to exercise an economic activity, with chances of profit or risks of loosing, that brings together the tools and the right personality for the exercise of this activity.”

The term internal entrepreneur is mainly used for those individuals who established or developed firms, internal entrepreneurs don’t create new businesses but they move forward existing businesses. The role of internal entrepreneurship is more important than ever in the present time when businesses are going global and the competition is becoming stronger and stronger.

Taking over the risk of creating a new business it’s not the same with managing it. Entrepreneurs as individuals in core of their idea is to collect the necessary material, financial and human sources to start a new venture, lead to a certain new point and beyond her growth they hire professional managers.

### **3.2. Stages of business growth**

The necessary skills to start a new business are entirely different from skills needed to manage it continually and effectively are now an already known fact. Strong and independent type of people who start new businesses might not have the patience and flexibility needed to be good managers so some entrepreneurs are facing difficult situations when should hire and supervise people. It’s difficult to find some combined skills at one person, being creative, entrepreneurial risk and talkative to people.

Over time a business start to grow, number of employs and added activities to be performed starts also to grow gradually. A new business generally passes through three stages of growth. First phase, where besides entrepreneurs are present some other persons but not all the firms start like this. A part of them may start with one person. Starting business with one or two persons is characteristic for Albanian business where the average is 2.2 persons in a private business.

In this phase where the firm has one person, the entrepreneur does all the jobs and in case of two or more besides these works the entrepreneur has also to make the work coordination of other workers. In phase two the firm reaches a critical moment. The entrepreneur has to work having also an intermediate managerial level. Phase three requires a high level of formalization because we have present an increase in intermediate levels, preparation of plans

and budgets, written politics and procedures, standardization of personnel practices, building control procedures, job description, etc.

It is clear that with the growth of the firm, so in phase two and especially in phase three, managerial skills are essential and an entrepreneur might not possess them. In a situation like this a professional manager must take his place otherwise the success of the business might not be guaranteed.

So, different from the case when the firm is small entrepreneur performs managerial duty, when the business starts to grow and is composed by a relatively large employs becomes necessary hierarchical managerial structure (LLaci, 2010).

### **3.3. Management impact in the success of SME**

In SMEs, changes according resources are insignificant but changes in results because of managerial choose, analytical and decision-making are obviously major. Many authors emphasize that changes in managerial styles are the main reasons that determine the success or failure of the companies. Some reasons attributing bankruptcy are: weak management and weak managerial team. W. J. Argent,(W.J.Argent, 1977), an early supporter of this thesis stated that “ when all agree that bad management is the main reason for bankruptcy no one agrees for the real meaning of bad management and nor the fact that how to recognize it, unless the ruined company, only then will all agree that how bad the management was.

So researchers like Lussier and Corman, (Lussier, 1995) discovered that main difference between a successful business and a bankrupt one depends from company's managers or owners that have capital access, managerial experience and managerial skills. Numerous studies show those businesses that have a business plan have a tendency to be successful. Moreover in some studies is found that business with owners who have previous experience don't have a tendency to bankruptcy.

Although, from a study of Hamilton (Hamilton, 2000), it was discovered that some businesses planned ago who had owners with previous experience and success in business, encountered difficulty when the environment changed, the competition increased and industry with which they started changed completely. Some of these firms were reconstructed, some survived, but later most of them failed. Literature is more bankruptcy oriented compared with the successes, but there are many scholars who study success.

Gaskill, Vank Auken and Mannin (Gaskill, Van Auken, & Manning, 1993), except others, found that the same reasons reported as reasons for failure, on the other hand seem to be the same factors that affect the success of the firm. Precisely, this study seeks to find out which

are the factors that bring success and impact on the performance of SMEs, in terms of gender, and size of their sector. A considerable number of researchers have reported that success is usually associated with strategic plans, the characteristics of business owner and type of business. These findings are confirmed by Bart and Baetz studies (Christopher K. Bart, 1998), and are the focus of this study. Some failures are caused by the fact that some owners lack the ability to face increasing competition today. MacMahon, Holmes and Hutchinson (Richard G.P. McMahon, 1993), in a study done in the US, they emphasized that the risk of failure of businesses during the first three years of their establishment, was 50% for new businesses and 20% for businesses that were established 10 years ago.

According to all those researchers a large number of small and medium enterprises fail because they do not have the advantages that require new customers. Thus, the level of sales falls, investments decrease and inventories accumulate and worst of all customer service in many businesses is not as before and as a result, failure grows rapidly.

Apart from the problems just discussed above, there are others such as proliferation business. More educated women are entering in the market with new businesses. Educated young are forming their businesses aggressively making existing firms seem obsolete. Meanwhile, many shopping centers were built in the suburbs, offering new services (including catalogs by email / mail) convenience, beating so that retailers cannot afford these services. In this way, the provision of new services and the benefits obtained from these costly services, which SMEs cannot offer, causing fierce competition.

## **Chapter 4 Research on Ownership Structure, Management Control and Agency Problem in Small and Medium Enterprise in Tirana Region**

### **4.1. Aim of study**

This master thesis tries to highlight the importance of management in enterprises especially small and medium ones, which represent the major part of all enterprises in our country. Management it is a key element of driving the business ahead and by the major part of all owners of businesses in underestimated because they often think that are able to make their business successful without having a business plan or an experience on the field of management. Exists companies that have successes without a management or knowledge on management but those cases are rare and other factors have contributed on a success like that. The major part of companies fails since their first years of activity because they are not able to make strategic decisions or to compete in the market. There are several studies done about the importance of management, the ownership control and agency problem. And all of those are related with the fact of how much information has the entrepreneur to implement all his information in his business.

### **4.2. Research design and methodology**

The methodology is designed including necessary research methods to obtain the information required to achieve the objectives of this study. This study includes both, qualitative methods and quantitative as referring SMEs in the country. The methodology involves mainly three stages: qualitative, quantitative as well as the third phase of which is related to the design success. Trade, services, small manufacturing, transportation, construction, etc., make up situations to information collected. SME and the recipient of decisions or entrepreneur / manager is the unit of analysis for all phases. Further, this chapter presents and describes the procedure, methodology and techniques used to collect, processed, and analyzed to test the hypothesis formulated. Qualitative research includes information collected in its in-depth interviews for owners and managers of SMEs.

Quantitative research includes results from surveys conducted through questionnaires sent to selected models of SMEs by sector and gender. The study was conducted in Tirana, where the number of enterprises is the highest active. Judging the appropriate methodology for each data collected results. The study tries to answer several questions related with the role of entrepreneur in the success of SMEs, the existence of manager in small and medium enterprises and the value of the management in the decision-making process and ultimately to the success of the company. This study will seek to answer several questions like, major part

of small and medium enterprises that operate in or country don't have a manager, this role is carried by the entrepreneur of business.

### **4.3. Research questions**

This study aims to identify and analyze the way how are managed and who manages the small and medium enterprises in Albania, key indicators that affect the success and growth of small and medium enterprises, so their performance based in managerial view.

To evaluate whether the performance or success of the firm, in economic terms is influenced or not by the used strategy, experience in management, goals and decisions of the owner, or by sector, gender and its size.

Analysis of the components that determine the success of the strategy, i.e. planning tools, types of analysis, marketing practices used and contained in SMEs in accordance with a new trend in competitiveness that can lead to success.

Research question nr 1: Do owners prefer to manage business by themselves or to delegate it to managers?

Research question nr 2: Does the business need a manager according to their experience in the market?

Research question nr 3: Do they need managers since they are start-ups or when they have some experience?

Research question nr 4: How entrepreneurship gender affects business success?

### **4.4. Data collection**

At this part of paper are shown the results taken from the survey. This section is divided on two parts. The first one is related more with the general information age, gender and classification of business, in order to see that does it exists a relationship with those variables. The second part is related with the management and the effect of it in the integration of business.

From the survey the majority of interviewers are male with a difference of 44% from females. Most of entrepreneurs have a high school education and less of them a postgraduate education.

**Table 3 Educational level related with gender.**

Count of educational level Row Labels	Column Labels		
	female	Male	Grand Total
high school	14	41	55
Postgraduate	5	3	8
University	9	28	37
<b>Grand Total</b>	<b>28</b>	<b>72</b>	<b>100</b>

*Source: Survey*

In the table below, it can be see that mostly of businesses have 10 to 15 years that operate in the market, 23 of them have 5 to 10 years, 20 is the number of new businesses that have less than five years that operate and only four of them have more than 20 years. This is because the majority of businesses are open after the fall of socialist system.

**Table 4 Years of operation in the market related with age**

Count of years of operation in the market Row Labels	Column Labels				Grand Total
	26-35	36-50	less than 25	more than 50	
1 to 5		13	3	4	20
10 to 15		13	15	2	35
15 to 20		1	2		15
5 to 10		18	4		23
more than 20		1	1		2
<b>Grand Total</b>	<b>46</b>	<b>25</b>	<b>6</b>	<b>23</b>	<b>100</b>

*Source: Survey*

The majority of entrepreneurs (managers) belong to the age of 26 – 35 years old and their years of operating in the market it is not more than 15 years. Following by owners of age 36 to 50 with the same level of years. The majority of persons (15 persons) that belong to the age more than 50 have 15 to 20 years that operate on the market.

**Table 5 Years of operation in the market relationship with business classification**

Count of years of operation in the market Row Labels	Column Labels			Grand Total
	Large	medium	small	
1 to 5		2	4	14
10 to 15			12	23
15 to 20			16	2
5 to 10		1	3	19
more than 20		1	1	2
<b>Grand Total</b>	<b>4</b>	<b>36</b>	<b>60</b>	<b>100</b>

*Source: Survey*

In this table are represented the years of operating in market with the classification of business in order to see if it exist a correlation with the years of operating and the size of company. As it can be seen the majority of businesses are small and those who have 15 to 20 years operating are only 2, and those that are medium and have the same years operating are 16, which it means that the chances of those business that have years in the market to integrate and become bigger ore to fall are higher than remaining in the same classification.

**Table 6 Business classification related with gender**

Row Labels	Count of Business classification		Column Labels	Grand Total
	Female	male		
Large		1	3	4
Medium		11	25	36
Small		16	44	60
<b>Grand Total</b>		<b>28</b>	<b>72</b>	<b>100</b>

*Source: Survey*

In this table is showed the relationship between gender and classification of business. Since we don't have an equal number of interviewers of males and females we cannot conclude that males are those that operate more than women on large, medium or small businesses.

#### **Management and manager on these enterprises**

**Table 7 Manager of business related with business classification**

Row Labels	Count of manager of business			Column Labels	Grand Total
	Large	Medium	small		
Other employees		2	15	2	19
Relatives		1	3	11	15
The person who owns the business		1	18	47	66
<b>Grand Total</b>	<b>4</b>	<b>36</b>	<b>60</b>		<b>100</b>

*Source: Survey*

In the table above is given the relationship between classification of business and the person who manage the business. It is obviously that more than half (66 from 100) of managers are the owners of the enterprises, from which 47 in small enterprises and 18 from medium ones. The higher number of managers that don't have a relative connection with the business that they manage is in the medium business with 15 of them.

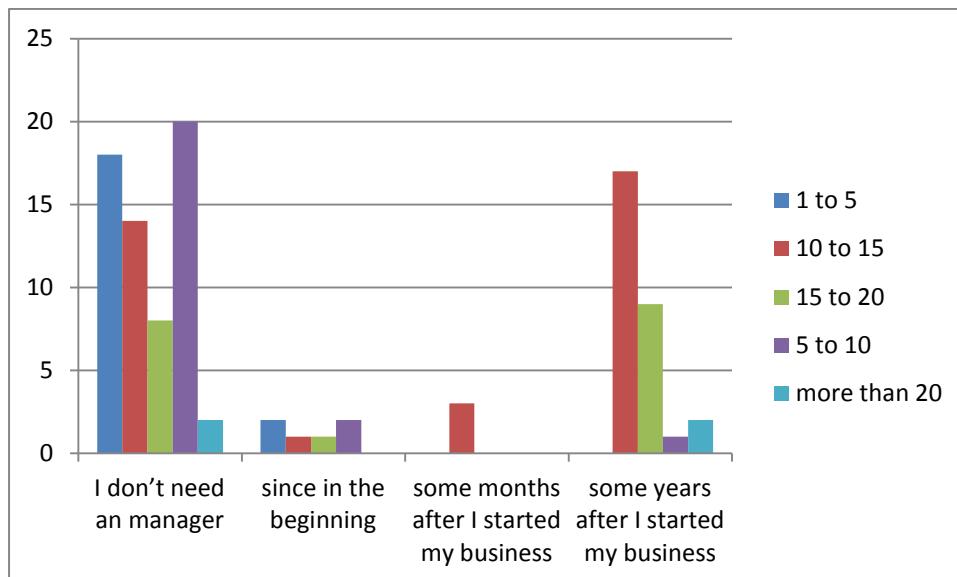
Count of when you have employed an manager for your business	Column Labels						Grand Total
		1 to 5	10 to 15	15 to 20	5 to 10	more than 20	
Row Labels							
I don't need an manager since in the beginning		18	14	8	20	2	62
some months after I started my business			2	1	1	2	6
some years after I started my business				3			3
<b>Grand Total</b>		<b>20</b>	<b>35</b>	<b>18</b>	<b>23</b>	<b>4</b>	<b>100</b>

**Table 8 The necessity of an manager and years of operating in the market**

Source: Survey

In this table are showed the relationship between years of operating in market and the necessity for a manager. To understand better it is showed in a graph below.

**Figure 3 The necessity of an manager and years of operating in the market**



Source: Survey

The majority of businesses have declared that they don't need a manager (62 of all businesses) but it can be seen that with the increase of years and with the growth of company, the necessity for a manager increase. The number of companies that have 10 to 15 years in the market, and have employed a manager some years after that have started their business, is bigger than those that don't need a manager and have less than 10 years that operate in market. The same thing can be said for those companies that have 15 to 20 years that operate in the market.

**Table 9 Employed an manager related with education level**

Row Labels	Column Labels			Grand Total
	high school	postgraduate	university	
I don't need an manager since in the beginning	33	4	25	62
some months after I started my business		2	4	6
some years after I started my business	22		1	3
<b>Grand Total</b>	<b>55</b>	<b>8</b>	<b>37</b>	<b>100</b>

Source: Survey

The relationship between education level and the necessity of a manager isn't a strong relationship, but it has effect, persons that have a university education or postgraduate are more willing than persons that have an high school education to hire a manager since in the beginning of their business.

**Table 10 Business plan in the beginning years and now**

Row Labels	Column Labels			Grand Total
	Large	medium	small	
No	2	27	43	72
Yes	2	9	17	28
<b>Grand Total</b>	<b>4</b>	<b>36</b>	<b>60</b>	<b>100</b>

Source: Survey

Row Labels	Column Labels			Grand Total
	large	Medium	small	
No		7	26	33
Yes	4	29	34	67
<b>Grand Total</b>	<b>4</b>	<b>36</b>	<b>60</b>	<b>100</b>

In this table are showed the answers of entrepreneurs related with the question if they did have or not a business plan in the beginning of their business and if they have now or not. The majority of companies didn't have a business plan in the beginning of their business, which it can be related with the fact of not being informed for the importance of plan to go ahead, but now, mostly of enterprises 67 of them have a business plan which it means that people are become aware for the importance of it and a good management.

**Table 11 Business plan in company**

Row Labels	Count of Have you had a written business plan before you open your business	Column Labels		Grand Total
		Female	male	
No		25	47	72
Yes		3	25	28
<b>Grand Total</b>		<b>28</b>	<b>72</b>	<b>100</b>

Source: Survey

In this table, it is clearly that the report male/female doesn't make any difference if the enterprisers decide to have a business plan or not, or if they have information about business plan.

**Table 12 Business plan before opening the business related with age**

Row Labels	Count of Have you had a written business plan before you open your business	Column Labels		less than 25	more than 50	Grand Total
		26-50	36-50			
No		26	21	3	22	72
Yes		20	4	3	1	28
<b>Grand Total</b>		<b>46</b>	<b>25</b>	<b>6</b>	<b>23</b>	<b>100</b>

Related with the age factor, it can be seen that the persons that belong to the age 26 to 35 years old, contains the majority of persons that have response with yes according to the question if they did have or not a business plan when they started their business. So the younger's ones are those that have more information and are aware for the management risk.

**Table 13 Manager of the business**

Row Labels	Count of manager of business	Number of employees						Grand Total
		1 to 5	10 to 15	15 to 20	20 to 25	25 to 30	5 to 10	
other employees			4	12	1	2		19
Relatives		2	6	5		1	1	15
the person who owns the business		23	5	9		1	28	66
<b>Grand Total</b>		<b>25</b>	<b>15</b>	<b>26</b>	<b>1</b>	<b>4</b>	<b>29</b>	<b>100</b>

Source: Survey

Regarding the fact that often large companies that have a higher number of employees are more willing to have a manager than those that have fewer employees, to see if it is true in

the table above are showed the relationship between number of employees and the manager of the company. It is obviously that companies that have 1 to 10 employees are the manager of their own business, companies that have 15 to 20 employees, mostly of them (12 businesses) have managers and 5 of them have as their manager relative's persons and 9 of them are the owners of their company. Those that have more than 25 employees are only four but 2 of them have other managers, one of them has a manager who is relative with him and only one is the manager of its own company. To concluded it can be said that, higher the number of employees, higher the potential of hiring a manager.

**Table 14 Have you been employed before you open your firm**

Count of Have you been employed before you open your firm		Column Labels			Grand Total
Row Labels		Female	male		
No			9	24	33
Yes			19	48	67
<b>Grand Total</b>			<b>28</b>	<b>72</b>	<b>100</b>

Count of Have you been employed before you open your firm		Column Labels			Grand Total
Row Labels		26-35	36-50	less than 25	
No		22	4	4	33
Yes		24	21	2	67
<b>Grand Total</b>		<b>46</b>	<b>25</b>	<b>6</b>	<b>100</b>

Source: Survey

In the table above its shown the relationship between gender and previous work, this question is important because it helps to see if people has open this business because they don't know what to do else or for other reasons. From the survey it is clearly that the majority of entrepreneurs have been employed before they open their business, on the other hand in the table that shows the relationship with age, the majority of persons that haven't been employed before belong to the age of 26 to 35.

**Table 15Number of founders and relationship among them**

Count of If the number of founders is greater than 1 what is the relationship among them		Column Labels		Grand Total
Row Labels		individual business	partnership	
family ties			15	15
investment		1	7	8
<b>Grand Total</b>		<b>1</b>	<b>22</b>	<b>23</b>

Source: Survey

From 100 businesses, 23 of them are partnership companies and their relationship is based in family ties and only 8 companies have funds that don't come from the same resource, family.

**Table 16 Changes in the organizational structure of management**

Row Labels	Column Labels	Grand Total			
		Large	medium	small	Total
No		1	21	52	74
Yes		3	15	8	26
<b>Grand Total</b>		<b>4</b>	<b>36</b>	<b>60</b>	<b>100</b>

Source: *Survey*

From the table above it's clearly that 74 of businesses haven't done any changes in their management structure, the other part is deviated by 15 to medium enterprises and 8 small enterprises. The medium ones mostly have more essential the change in their structure because they have evolved from small enterprises to medium ones, they have evolved from small enterprises to medium ones.

All the interviewers have had a positive response for the last question "do you think that the employment of a manager is an important element for your company development" but few of them have give an argument related with this. Entrepreneurs are aware that management is important but are other factors that why managers are less present in those companies, like economic situation or the level of trust.

## **Conclusion**

Businesses that operate in area of Tirana are mostly small and medium enterprises. The objects of this study are those enterprises. History has shown that the majority of companies have failures occurred due to mismanagement, the owner of those business find difficult to trust somebody as a management of their own company but even if they do another major problem occurs, the way of electing the right candidate for the management of the company. Often people who deal with electing right person for the right job are not qualified and as a result of these failures lead to the bankruptcy of the company.

In Albania, transition to an economy based on the principles of a market economy, changed the concept and role of manager, which should be oriented and be successful in a field where the rules were almost unknown to them. From this point of view we can say that management was a new science and profession, in order to be effective in their work Albanian managers had to learn from the beginning.

From the survey the majority of interviewers are male with a difference of 44% from females. Most of entrepreneurs have a high school education and less of them a postgraduate education.

The majority of businesses have 10 to 15 years that operate in the market; they are created after the fall of communism and as a need for self-employment. 46% of the owners of those businesses belong to the age 26 to 35 and 25% of them belong to the age 36 to 50.

66% of managers are the owners of the enterprises, from which 47% in small enterprises and 18% in medium ones. The higher number of managers that don't have a relative connection with the business that they manage is in the medium business with 15% of them.

The number of companies that have 10 to 15 years that operate in market, and have employed a manager some years after that have started their business, is bigger than those that don't need a manager and have less than 10 years that operate in market. The same thing can be said for those companies that have 15 to 20 years that operate in the market.

The relationship between education level and the necessity of a manager isn't a strong relationship, but it has effect, persons that have a university education or postgraduate are more willing than persons that have an high school education to hire a manager since in the beginning of their business.

It is obviously that companies that have 1 to 10 employees are the manager of their own business, companies that have 15 to 20 employees, 12% have managers and 5% of them have as their manager relative's persons and 9% of them are the owners of their company. Those

that have more than 25 employees are only four but 2 of them have other managers, one of them has a manager who is relative with him and only one is the manager of its own company. So, higher the number of employees, the potential of hiring a manager is higher.

The main specifications of SMEs are innovation, flexibility, direct relationships at work, employment opportunities, management can be done by one person, the capital is limited, the independence of the owners, taking quick decisions etc.. In these businesses exist a higher centralization in the case of decision-making, there are a limited number of employees who participate in decision-making but also decision-making is mainly done by the owner. In the initial phase of development of SMEs, the majority of cases management is implemented only by a person. Managers or owners of these businesses possess general knowledge, have unlimited authority and responsibility in managing these businesses.

For small and medium enterprises that operate in Tirana region, managerial capacity was a strong determinant of success and failure prevention. Companies that don't have a managerial plan or manager are more willing to stay in the same place or fail that develop and occupy a competitive market place.

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## **Appendix**

### **Survey used for the study.**

This survey is for research purposes, regarding to managerial methodology of small and medium businesses in Tirana area. Data obtained in this survey are completely confidential.

Instructions: Please read the questions carefully and answer in accordance with the instructions provided. Choose only those responses that are appropriate and relevant to your company.

### **General questions**

1. Gender                    -M            -F

2. What is your age?

- Under 25
- 26-35
- 36-50
- Over 50

3. What is your educational level? (Choose one)

- Primary school
- High school
- University
- Post-graduate studies (Master, Doctorate, etc.)

4. Occupation: \_\_\_\_\_

### **Data on the enterprise**

1. Business classification

- Small
- Medium
- Big Enterprise

2. Time operating on the market

- 1-5 years
- 5-10 years
- 10-15 years
- 15-20 years

3. Number of employees

- 1-5 employees
- 5-10 employees

- 10-15 employees
- 15-20 employees
- 20-50 employees
- 50-150 employees
- More than 150

4. The manager of business is:

- The owner of the business
- Close/family people with the owner
- Other employees

5. Since when you have employed a business manager?

- From the beginning of my business
- A few months after
- Several years after
- It hasn't been necessary to have a manager

6. The enterprise is located in the center or in periphery area of Tirana?

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7. Your business is located

- Only in one place in Tirana
- Two or more places in Tirana
- In Tirana and other cities
- You export all your production/ output

8. Your business form is:

- Individual
- Partnership

9. If the founders are more than 1, what is your relationship? (you can define more than one answer)

- Family relations
- Professional relationship
- Investment/ Joint financing
- Other (\_\_\_\_\_)

10. Have you been employed before you started your own business? -Yes -No

11. Have you had experience in this business area before you started your own enterprise?

- I have had lot of experience in this business area
- I had a little experience

- I didn't have any experience before I started my business

12. If yes (above 10&11) how many years of experience have you had?

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13. Have you had a written business plan before you started? -Yes -No

14. Currently do you have a written business plan? -Yes -No

15. Business activity:

- Trade and production
- Education
- Health and public relations
- Tourism
- Construction
- Transport
- Other (\_\_\_\_\_)

16. Show how much each of the following advantages have helped your enterprise to compete successfully (from 1-5, 1more, 5 less)

- Technology
- Company image
- Adequate financial assets
- Managerial skills
- Other (\_\_\_\_\_)

17. How much do you trust to your collaborators? (from 1-5, 1more, 5 less)

-1                    -2                    -3                    -4                    -5

18. During the previous years, have you done any full or substantial change to the managerial organization structure? -Yes -No

19. During the previous years, have your company present any new marketing method that it hasn't been presented in the market before? -Yes -No

20. List in order of importance for your company the following strategic objectives: ( 1- very important, 5-least important)

- Product quality
- Company image
- Quality services
- The market share
- Position in whole industry
- Penetration in international markets

Other (\_\_\_\_\_)

21. Have you or any other manager of your company attended training courses for business or management? -Yes -No
22. Have you or your business manager worked in a managerial position before started work in this company? -Yes -No
23. Do you think that the employment of a manager is an important element for your company development and why?

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