



SMALL AND MEDIUM -SIZE BUSINESSES GROWTH IN ALBANIA
ECONOMY

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**SMALL AND MEDIUM-SIZE BUSINESSES GROWTH IN ALBANIA
ECONOMY**

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SMALL AND MEDIUM-SIZED BUSINESSES GROWTH IN ALBANIA ECONOMY

ABSTRACT

Small and medium-sized businesses (SMEs) are very important for job creation and economic growth during times of change and market opening. This is because entrepreneurs have to deal with both good and bad things. This study looks at how political stability affects the growth of small and medium-sized businesses (SMEs) in Albania. It looks at how governance, regulatory frameworks, and institutional quality affect business performance and growth from 2015 to 2025.

This study employed a mixed-methods approach, combining surveys of SME owners with secondary data from governmental and international sources, to examine the variables influencing SME growth, such as access to capital, regulatory efficiency, and innovation capacity. The study shows that there are strong links between political stability, institutional support, and the growth of small and medium-sized enterprises (SMEs) when looking at both primary and secondary data. Studies show that stable governance and clear policies make entrepreneurs much more confident and their businesses much more resilient.

Progress and new ideas happen more slowly when politics are unstable and structures are weak, for example. The study gives lawmakers, business owners, and other people who want to know how to make the small business ecosystem better useful information. It also gives us a better idea of what it is like to run a small business in Albania.

Keywords: *political stability, SMEs, governance, institutional quality, entrepreneurship, economic development.*

RRITJA E BIZNESEVE TE VOGLA DHE TE MESME NE EKONOMINE E SHQIPERISE

ABSTRAKT

Në kontekstin e tranzicionit ekonomik dhe liberalizimit të tregut, ku aktiviteti sipërmarrës përballet me sfida dhe mundësi të njëkohshme, ndërmarrjet e vogla dhe të mesme (NV-të) luajnë një rol kyç në nxitjen e rritjes ekonomike dhe punësimit. Ky projekt hulumtimi shqyrton ndërveprimin midis stabilitetit politik dhe rritjes së NV-ve në Shqipëri, duke analizuar se si qeverisja, kuadri rregullator dhe cilësia institucionale ndikojnë në performancën dhe zgjerimin e bizneseve nga viti 2015 deri në 2025. Duke përdorur një qasje të kombinuar metodologjike, përfshirë pyetësorët me pronarët e NV-ve dhe të dhëna dytësore nga raportet qeveritare dhe organizatat ndërkombëtare, studimi shqyrton faktorët që formojnë zhvillimin e NV-ve, si qasja në financa, eficienta rregullatore dhe kapaciteti për inovacion. Përmes një analize të detajuar të të dhënave primare dhe dytësore, hulumtimi identifikon korrelacione kyçe midis stabilitetit politik, mbështetjes institucionale dhe rezultateve të rritjes së NV-ve. Gjetjet tregojnë se qeverisja e qëndrueshme dhe politikat transparente rrisin ndjeshëm besimin sipërmarrës dhe rezistencën e bizneseve, ndërsa paqëndrueshmëria politike dhe institucionet e dobëta pengojnë zgjerimin dhe inovacionin. Studimi kontribuon në një kuptim më të thellë të peizazhit të NV-ve në Shqipëri, duke ofruar njohuri të dobishme për politikanët, sipërmarrësit dhe aktorët e tjerë që synojnë të forcojnë ekosistemin e bizneseve të vogla.

Fjalët kyçe: *stabilitet politik, NV-të, qeverisja, cilësia institucionale, sipërmarrja, zhvillimi ekonomik.*

DEDICATION

This thesis is dedicated to my beloved family for their unwavering support over the past two years. It is a genuine expression of my gratitude for their endless encouragement of all my dreams and goals.

This thesis is also dedicated to my great thesis adviser, Dr. Reina Zenelaj, who gave me her valuable time, knowledge, support, and dedication to our academic success, which made this work possible and a great accomplishment.

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DECLARATION

I confirm that my Master's Thesis, " SMALL AND MEDIUM-SIZED BUSINESSES GROWTH IN ALBANIA ECONOMY," is entirely my own work, with no quotes or sources that are well-known. I also confirm that this thesis has not been turned in for a degree at Epoka University or any other school, either in the past or at the same time.

Otion Beho

06.03.2026

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1. INTRODUCTION

1.1 Background

Many things has changed in Albania's politics and economy since 1990. There has been a lot of trouble, institutions have had to be rebuilt, and it has taken a long time to build a stable democracy. The end of the communist government began a long process of changing from a centralized, one-party system to a market-based economy and a democracy with many political parties. But this change was not easy or smooth. Instead, it was marked by weak institutions, unstable economies, and ongoing political crises, the most famous of which was the 1997 crisis. To understand the link between political stability and the growth of small and medium-sized businesses (SMEs) in Albania, you need to know about this historical trend.

The years 1990 to 2000 were a turning point for Albania's modern political and economic systems. The early 1990s were a time of economic crisis and rising social unrest as the country moved from a one-party communist regime led by the Party of Labour to a multi-party representative democracy. The March 1991 parliamentary elections caused a political deadlock because the Albanian electorate was split. The urban population, which was a minority, mostly supported opposition parties, especially the newly formed center-right Democratic Party. The rural population, which was the majority, stayed loyal to the ruling party, which led to a clear victory for the communists (3). The opposition quickly rejected the election results and started protests and strikes against the elected government. Independent trade unions backed these actions and called for a 50 percent wage increase, union oversight of working conditions, and accountability for the people responsible for the Shkodra massacre on April 2 (4).

Members of the parliamentary opposition did not vote on initiatives put forward by the communist government, and widespread protests brought the country to a standstill.

In response, the People's Assembly decided to create a new government and hold early elections for a 140-member parliament, which is smaller than the original one. Ylli Bufi became the head of the "National Stability Government" on June 5. This government was set up to replace Fatos Nano's cabinet. Vilson Ahmeti, who was not a member of any political party, took over for Bufi on December 10. He was seen as a temporary prime minister until early elections were called.

In 1992, the Democratic Party of Albania (DPA) won the elections. This was the beginning of a shift toward policies and actions that were good for business and the West. At first, everything seemed fine, but the first few years of the change were marked by unstable economies, weak governments, and a lot of corruption. The business got weak too quickly because the government did not have enough power to control it. In 1997, things got worse when pyramid schemes all over the country went out of business, stealing a lot of money and causing a lot of problems. When there were not many rules about money, the plans worked. But when there was a war, they became more of an economy. When they fell, the streets were full of chaos, riots, and stealing from military stores. The government fell apart, about 2,000 people died, and the state lost its power for a short time. During this time, there was a lot of stealing and taking of public property, which made institutions seem even less trustworthy.

A lot of things happened in Albania in 1997. It showed that institutions are not very strong and that a weak government is bad when things change quickly. The UN and the EU, two of the most important groups in the world, did a lot to help people trust each other again and make the country safe again. The Constitution of 1998 changed how democracy works. It said that it is important to protect basic rights, follow the law, and keep the branches of government separate. After 1997, many political and economic systems changed, but some stayed the same and still had an effect on the safety and growth of Albania's government and economy. A lot of people want to know how well the country has done by looking at how much it has grown since the bad times. A lot of people have written about what happened in 1997, but not many have tried to figure out what it means for a state to fail and for institutions to stay strong over time. This thesis uses Albania as an

example of a country that has changed, focusing on its biggest successes and the problems it still has with its structure.

It has not always been easy for Albania to become a democracy. The Socialist Party of Albania (SPA), which was mostly made up of communists, won the first elections in 1991 and stayed in power. People were not happy with them, though. People got mad when things changed slowly and the old government still had a lot of power. This made more people angry. Over time, a lot of changes were made to institutions to improve democracy. People still said that others were buying votes and changing the rules, but the changes that were made to the voting system were meant to make the elections more fair and open. In 2016, the EU helped start a big change in the courts that made it easier to keep an eye on judges and lawyers to cut down on waste and corruption. Decentralization was tried to make local government work better and get more people involved. Civil society groups also made the government more responsible and pushed for changes in areas like human rights, environmental protection, and equal rights for men and women.

A lot of Albania's economy depends on small and medium-sized businesses (SMEs) right now, when politics are always changing. Many studies have shown that small and medium-sized businesses (SMEs) are very important for the economy to grow. Small and medium-sized businesses (SMEs) create jobs, improve the economy, come up with new ideas, raise productivity, lower poverty, raise exports, and lower imports. They also help businesses compete with each other. Evidence indicates that both large and small enterprises contribute to the economic growth of Albania. Big businesses can deal with economic downturns better than small and medium-sized businesses (SMEs). This is because big companies can save money by doing things on a larger scale and have better financial systems. Big companies usually set the trends that small and tiny businesses follow. But small and medium-sized businesses are still very important for the economy to grow and change. Diagnostic tests that show the absence of heteroscedasticity, normally distributed residuals, zero-mean residuals, and clustering among residuals prove that economic models are strong. These kinds of findings show how important it is for Albania to grow its businesses.

Helping small and medium-sized businesses (SMEs) grow has always been the most important thing for the Albanian government to do. This is because small and medium-

sized businesses (SMEs) help the country work better and make jobs. The government has wanted to make the private sector stronger ever since the economy started to change. People believe that the best way to help people live better and the economy grow is to make it easier for businesses to do business and help small and medium-sized businesses (SMEs) grow over time. This will lead to more jobs, new ideas, and more work. The Business Development and Investment Strategy 2021–2027% shows that this is true. Its goals are to make money, help small and medium-sized businesses, come up with new ideas, and hire more people. The plan is backed by the Small Business Act (SBA), which will help small and medium-sized businesses (SMEs) get help from both the government and private companies. The 2019 SME Policy Index for the Western Balkans and Turkey says that Albania has done a great job of following the SBA's ideas since the last review. The country has done a great job of making rules for the business world, public contracts, standards and technical rules, and helping small and medium-sized businesses grow all over the world. There were times when it was better than most other places nearby.

The system is still having problems, even with these changes. Many small and medium-sized businesses (SMEs) still have trouble getting loans, and the black market makes it hard to know what is going on. It is hard to say what will happen next because the rules are being broken so badly. These problems make the main point even stronger: the government needs to stay steady so that small businesses can grow over time. The history of Albania shows that the government changes when the economy does. It is hard to let the private sector grow while keeping institutions stable. This is clear from what happened in 1997, the changes in democracy that followed, and the current policy efforts. This study examines Albania's history from 1990 to the present, particularly from 1997 to 2016 and beyond, to determine the impact of government security on the development of small businesses and, ultimately, the overall economy of the country.

1.2 Purpose of this study

It is important to study the link between political stability and the growth of small businesses in Albania because political conditions have a direct effect on the economic and institutional environment in which businesses work. Since the early 1990s, it has made a lot of progress toward becoming a democracy with a market economy. But the government

still has issues. There are still policies that do not make sense, bad companies, and corruption that make it hard for businesses and investors to know what is going on. Institutional consolidation has made a lot of progress since the crises of 1997 and the Constitution of 1998, but it is still hard to improve the rule of law and organize government policies. Due to these fundamental issues, it is impossible to predict how laws will evolve. These things also make it hard for businesses to run smoothly and make people lose faith in the economy as a whole. These things are very important for small and medium-sized businesses (SMEs).

Albanian politicians still have problems because they do not always follow the rules. People lose faith in the system because there are not enough ways to keep an eye on things and the government is not doing a good job. Changes to laws have often been made slowly, without a clear long-term plan, and without getting enough feedback from people who would be affected. It is not always clear what the laws and rules are, and they change all the time. Many people think that cheating hurts businesses, good government, and the trustworthiness of institutions. The government is still very worried about it. When the government makes rules like these, it costs more and is harder to run a business. People are also less likely to start their own businesses and buyers feel less safe. Small businesses may have a hard time growing and moving forward because they do not have a lot of money or the skills to deal with changes in politics and institutions.

Politics is important, but small and medium-sized businesses (SMEs) in Albania also have problems that make it hard for them to grow. Businesses still have a hard time getting the money they need, especially if they do not have good credit or enough collateral. Small and medium-sized businesses (SMEs) often have to use their own money or find other illegal ways to make money. Because of this, they can not grow, come up with new ideas, or spend money as easily. Things get worse when you do not know the rules. The rules for paying taxes, getting a license, and following the law are always changing, and different parts of the government do not work well together. This makes it harder to plan for the future and more expensive to run a business. Schools also do not have all the support systems they need yet, like counseling services, better ways to fill out forms, and strict rules about how to compete. It seems like these problems are making things worse for the government. When the government is uncertain, it is much harder for small businesses to do well.

The study says that the level of security in the government affects people's trust in business, the flow of investors, and the economy's success. There has not been much real research done on the connection between the (in)stability of the government and the growth of small businesses in Albania, though. Research on institutions in Albania has demonstrated the significance of effective governance, legal frameworks, and policy frameworks for business development. Research on countries that used to be communist shows that small and medium-sized businesses (SMEs) can be affected by basic things like how well governments work and how trustworthy laws are. A more extensive collection of studies examining the impact of local politics on economic growth supports the notion that safety is crucial for investment and productivity. There has not been a lot of scientific research that looks specifically at the link between Albania's unstable government and small business success measures, though. Dishonesty, policies that do not make sense, and broken government processes are all signs that politics is unstable. There is not a lot of information out there on this subject, which makes our study even more important. This study's goal is to fill in this gap by showing how politics can help or hurt small businesses in Albania.

Through this study, we want to learn how government safety affects the growth of small businesses in Albania. Small and medium-sized businesses (SMEs) are important for a lot of things. They help the country grow by making money, hiring people, and coming up with new ideas. Even if you do not work in politics or study it, politics can still affect your career. The stability of the government affects how people feel about it, how far ahead businesses can plan, and how often taxes and rules change. The people who made this study want to know how safe or unstable the government is and how it affects the lives, growth goals, and investment plans of small businesses.

We would also like to know more about how democracy, strong governments, and consistent rules affect how small and medium-sized businesses (SMEs) in Albania work. The government needs to stay calm so that long-term plans can work and help businesses and the economy. If there are a lot of changes in the government or policies, the rules might not be as simple. This could make buyers less sure of themselves. People should keep their word, respect other people's property rights, and be honest in business. This is why the law is so important. If small and medium-sized businesses want to do well in the long run, they need to do all of these things. Fees, licenses, and following the rules should

always be the same. This helps businesses plan well, use their resources wisely, and cut down on their risks. The study aims to ascertain the influence of politics on business owners' decision-making and subsequent company growth.

The study also aims to identify the political stability indicators that most significantly affect small business performance in Albania. Political stability is a complicated idea that includes things like how well the government works, how good the institutions are, how well they fight corruption, how trustworthy the rules are, and how open the administration is. The purpose of this study is to determine which of these factors most significantly influences SME outcomes, including income growth, job creation, investment decisions, and market engagement. Finding these key factors will help us understand the political problems that small businesses face and help us make more targeted changes to policy.

Finally, this study aims to enhance existing knowledge by demonstrating the impact of government security on the growth of small businesses in Albania. There has not been extensive specialized research conducted on this topic thus far. The study aims to rectify the inadequacy in academic discussions concerning transition economies and offer significant insights to legislators, business entities, and development institutions. People think that the results will help make the country's and the government's systems of administration safer, more open, and more logical. This will help the economy and small businesses grow over time.

1.3 Research question

RQ1: How does political stability influence small business growth in Albania?

When the government's security changes, do big things like the size of the business, the number of jobs it creates, the amount of money it makes, and the amount of money it spends? This subject examines that inquiry. When the government is stable, business owners may change how they feel about their companies, how they plan for the future, and how they see risk. When the government is stable, the rules are clear, and the institutions are strong, people are more likely to spend money, grow, and come up with new ideas. On the other hand, political instability can make things less clear, make people less likely to spend money, and slow the growth of small and medium-sized businesses (SMEs). The

research seeks to ascertain the influence of political stability on the expansion of small enterprises in Albania by examining this inquiry.

The second study topic focuses on identifying and evaluating the specific political factors that significantly impact SME performance.

RQ2: What political factors most affect the performance of small and medium-sized enterprises (SMEs) in Albania?

Along with the rule of law, the need for the government to stay the same, and the fight against crime, the question breaks down political security into its most important parts. All of these things change how businesses work in different ways. Rule of law is what keeps deals going and makes sure that everyone has the chance to compete fairly. Governments need to be steady for economic plans and attempts to change things to work in the long run. Companies can make better strategy choices when their strategies are always the same. They are not worried about the rules as much, which is why. However, bad management and government can make things more expensive, alter the way the market works, and hurt small businesses more than others, especially those that do not have a lot of cash on hand. The study's goal is to find the political security factors that have the biggest effect on the growth of small businesses in Albania.

1.4 Hypothesis

The current study offers a theoretical framework for empirical validation, based on research inquiries and theoretical constructs from institutional economics and political economy literature.

H₁ (Alternative Hypothesis): The stability of the government has a substantial impact on the growth of small enterprises in Albania.

The other theory says that a government that is stable makes the business world safe and reliable, which is good for small businesses that want to grow. People believe that stable government conditions will boost investor confidence, improve the functioning of institutions, and reduce uncertainty. All of these things will help small and medium-sized businesses get bigger.

Ho: The null hypothesis The hypothesis positing that political stability does not substantially influence small business growth in Albania will be assessed against the alternative hypothesis using appropriate research methodologies. This hypothesis testing will show if political stability is a statistically and substantively important factor that affects the growth of small businesses in Albania.

The purpose of this research project is to enhance our understanding of the impact of government security measures on small and medium-sized enterprises (SMEs). The study aims to provide policymakers, business leaders, and prospective students interested in Albania's economic landscape and government with valuable insights by examining specific research questions and pertinent theories.

1.5 Significance of the study

This study is significant for both educational and practical contexts as it examines the impact of political stability in Albania on the development of small enterprises. Small and medium-sized businesses (SMEs) make up a big part of Albania's economy. Even though the government is still having trouble with the institutions and politics they work in, they still create jobs, bring in money, and help the economy grow. The study looks at how stable politics affects the growth of small and medium-sized businesses. This is a big policy issue that has an impact on economic reform and the growth of the private sector. This research contributes to the domains of political economy, institutional theory, and small business development by utilizing data from Albania, an economy that has undergone a transition and has been insufficiently examined in prior studies. A lot of research has been done on the general connection between political stability and economic growth. There has not been much research on how political factors like government stability, rule of law, policy consistency, and the quality of governance affect small businesses, though. The study adds to the body of research on how institutional factors affect the success of small and medium-sized businesses in transitional settings by looking at these indicators.

Many people will find this report useful. Some of these people work for the government, make decisions, run their own businesses, work for foreign groups, or work for

development agencies. The goal of the study is to find the most important parts of government stability that help small businesses do well. This will help make rules that are easier to understand, more consistent, and more helpful. If you want to change the government, fight corruption, improve the institutions, and make the rules more stable, this is very important. The results show business owners and entrepreneurs how things that happen in the government that they can not change can affect their chances of growth and risk. It helps them make the right choice for themselves. The study also gives Albanians and people in the rest of the Western Balkans more information to use when they talk about politics. You can also learn more about how small and medium-sized businesses are doing and how stable politics are. Cross-sectional, longitudinal, and comparative studies are some examples of studies that can be used for this.

LITERATURE REVIEW

2.1 Concept of Political Stability

A lot of different fields of study look into political stability because it is so important for good government and social progress. A stable political system will not change over time and will be easy to understand (Huntington, 1968). This means that the law does not allow for big problems with institutions, violent conflicts, or changes to the government. A state with stable politics can usually keep the peace, make sure its institutions work, and make sure that policies do not change too much so that people can plan for the future and grow. Stability does not mean that there is no political disagreement or competition. This means that a political system can use the laws and institutions that are already in place to solve problems and make changes.

Stability of institutions is one of the most important things for political stability. This means that the political and administrative systems are strong, legal, and helpful. The executive, legislative, and judicial branches make up a stable political system. All of these branches do their jobs well and follow the rules in the constitution. The rule of law, respect for democratic processes, and ways to hold people accountable all help to keep institutions stable. People are more likely to trust the government if they think it is fair and can enforce the law fairly (World Bank, 2020). This means that there is less of a chance that there will be political unrest. On the other hand, weak institutions, corruption, and the politicization of state structures often make things less stable and lead to crises that happen over and over again.

For political stability, social cohesion and internal security are also important because they help keep the peace during the political process. Politics can become less stable when there is a lot of economic inequality, racial conflict, or social division.

This could make people angry and cause them to lose faith in the government. People often think that protests, political violence, and rebel activity are signs of instability. Modern scholars say that peaceful protests and civic engagement do not always mean instability, especially in democracies. When political systems do not do a good job of meeting social needs, instability can happen. This can lead to long periods of unrest or the breakdown of government structures.

2.1.1 Political Stability Indicators Relevant to Albania

People often use international governance indicators to find out how stable a country's government is by comparing it to other countries. The Worldwide Governance Indicators (WGI) from the World Bank are one of the most well-known frameworks (Kaufmann, Kraay, & Mastruzzi, 2010). The "Political Stability and Absence of Violence/Terrorism" index that is part of this framework is well-liked. This measure looks at how people think about the chances of political instability, which includes things like terrorism, political violence, and the end of the government. Albania can use this index to see how the government has changed over time during times of political reform, elections, and attempts to join the European Union (World Bank, 2020).

A fair election and a government that is based on democracy are two of the most important signs that Albania's politics are stable. Albania has been having a rough time since the early 1990s. The government used to be very strict, but now there are a lot of political groups (Elbasani, 2013). There have been a lot of elections, but political stability has been hurt by things like political polarization, people not agreeing with the election results, and boycotts of parliamentary institutions (Freedom House, 2022). The stability of a nation is significantly influenced by the openness, receptiveness, and acceptance of its politicians towards the democratic process. People do not trust institutions when votes are not clear, and that is why they stop working.

The rule of law and efforts to fight corruption must work well for Albania's politics to be stable. People used to think that the courts were not very fair and that there was a lot of crime. This made it hard to keep the government going (European Commission, 2021). The courts in Albania have changed a lot in the last few years because the country wants to join the European Union. These changes are very important for making the country safer

politically. Things are getting better when the law is more clear, national groups are more like those in the EU, and things are more open (OECD, 2019). People are starting to look at more than just how well Albania follows international rules for running a country when they judge its political stability. They are also looking at how things are going in the country itself.

2.2 Overview of Small Business Growth

In Albania, small and medium-sized businesses (SMEs) are defined by how many people they hire and how much money they make or lose each year. In Albania, a small or medium-sized business (SME) is one that has fewer than 250 employees and either makes less than 250 million Albanian Lek (ALL) a year in net sales or has a total yearly balance of less than 250 million ALL. Small businesses have between 10 and 49 employees and can make up to 50 million ALL in sales. Medium businesses have between 50 and 249 employees and can make up to 250 million ALL. This is how grouping things for economics and statistics function in Europe.

The law has changed over time to make Albanian policy more like EU standards and to help the private sector grow. This has changed what it means to be an Albanian SME. Law No. 8957 (2002) and its later changes through Law No. 10042 (2008) set the basic limits for the number of employees and turnover that are still used to classify SMEs. Changes have been made over time to make sure that both the law and the rules for national surveys, like those done by the Albanian Institute of Statistics (INSTAT), are followed. The Albanian thresholds use the local currency instead of euros, which is what EU rules usually do. The way they are grouped is very similar to how the EU defines small and medium-sized businesses (SMEs) as businesses with fewer than 250 employees and a turnover or balance sheet limit that is proportional to their size.

Not only is the SME category in Albania important for statistics, but it is also important for the economy. According to structural business statistics, small and medium-sized businesses (SMEs) make up the vast majority of businesses in the national economy. About 99.9% of all registered firms are classified as SMEs. The fact that this definition is so widely used shows that it is very useful. It also shows that small and medium-sized businesses are the main sources of jobs and activity in the private sector in Albania. The

rules and technicalities that define SMEs are important not only for that, but also for making economic plans, looking at data, and changing policies that will help businesses grow and compete.

A lot of people use a set of measurable economic indicators to look at how small and medium-sized businesses (SMEs) are doing. These signs show how well the business is doing and how it affects the economy as a whole. In Albania, you can tell if small and medium-sized businesses (SMEs) are growing by looking at things like how many jobs they create, how much they sell, how productive they are, and how many new markets they reach. These signs show how small and medium-sized businesses (SMEs) can grow, become more competitive, and help the economy grow in a way that is good for the environment. The economy as a whole, the job market, and the generation of income all have a big impact on the growth of small and medium-sized businesses (SMEs) in Albania.

The creation of jobs is one of the most important signs of growth for small and medium-sized businesses (SMEs) in Albania. This is because small and medium-sized businesses (SMEs) are the main source of jobs in the private sector. The rise in jobs for small and medium-sized businesses (SMEs) shows that the economy can hire more people, especially young people and those with low to medium skills. In Albania, small and medium-sized businesses (SMEs) are especially important in industries that require a lot of workers, like trade, construction, manufacturing, tourism, and services. It depends on the economy, how easy it is to get credit, and the rules that businesses have to follow how many people work for small and medium-sized businesses (SMEs). For small and medium-sized businesses (SMEs) to hire more people, the government and other organizations need to stay stable. This is because people are less likely to stay in a job for a long time if they do not know what will happen.

The economy in Albania is good for all kinds of companies. If sales keep going up, they will be around for a long time. When turnover goes up, it means that more people want to buy goods and services, the business is getting better at what it does, and it can handle more work. Small and medium-sized businesses in Albania often have trouble growing their sales because they can not get credit, there is a lot of informality, and they depend on domestic consumption. But businesses that can increase their sales are more flexible and able to bounce back, especially in markets with a lot of competition. When small and

medium-sized businesses (SMEs) make more money, they can use that money to buy new technology, hire more people, and come up with new ideas. This helps them grow even more in the long run.

Market expansion is an important but qualitative part of SME growth. It means that businesses can do business in places other than their local markets. Most small and medium-sized businesses (SMEs) in Albania start out by serving local or regional demand within a small geographic or sectoral area. Growth through market expansion may entail entry into national markets, diversification of products or services, or engagement in export activities. A small number of Albanian small and medium-sized businesses (SMEs) are directly involved in trade with other countries. Still, growth in the market is a big sign of competitiveness and structural improvement. Companies that can reach more markets tend to be more productive, have better management practices, and know more about international standards.

Albania's small and medium-sized businesses (SMEs) are important to the economy, but they are not growing as fast as they could because of problems with how they are set up. A lot of businesses still can not grow because they do not follow contracts, are not official, have too many rules, or have bad systems. Businesses may also feel less confident when the government is unstable and the rules change all the time. This can make it hard for them to decide how to spend and grow. This is why small and medium-sized businesses (SMEs) in Albania do not always grow quickly. They do not always grow quickly. To turn SME dominance into long-term economic growth and activities that add more value, these basic problems need to be fixed.

Albania's economy needs small and medium-sized businesses (SMEs) to grow. This is clear from the fact that they are doing well in terms of jobs, income, and market growth. These numbers going up means that the company is doing well and that the economy is becoming more diverse, more open to workers, and more competitive. Politicians and international groups are using SME growth indicators more and more to keep track of changes in the economy and plans for growth. One of the best things that Albania can do to support long-term and broad-based economic growth is to make it easier for small and medium-sized businesses (SMEs) to grow.

2.3 Institutional Theory and Its Relevance to Albania

The theory of institutions gives us a full picture of how both formal and informal institutions affect political and economic outcomes. From this theoretical perspective, institutions encompass the rules, norms, and collectives that govern interpersonal communication (North, 1990). These are things like constitutions, laws, rules and regulations, and social norms. Institutional theory posits that the quality, credibility, and efficacy of institutions significantly influence economic prosperity and political stability. It says that these things are not only affected by market forces or individual actions (Acemoglu & Robinson, 2012). Strong institutions make things more stable for business and capital by making sure contracts are followed, reducing uncertainty, and protecting property rights.

Putting official and informal institutions in different groups is one of the most important things that institutional theory does. It is official when there are constitutions, laws, courts, and regulatory bodies that are written down in law (Scott, 2014). You can think of informal institutions as things like culture practices, social norms, and unwritten rules for how to act. In many emerging and transitioning economies, weak formal structures are often paired with or replaced by less formal ones (Helmke & Levitsky, 2004). According to institutional theory, political and economic interactions can become less stable and effective when formal structures are not able to police rules or are not seen as legitimate. This can happen because of things like favoritism, corruption, or personal networks.

The best way to see how Albania's politics and economy have changed since communism fell and how they are still changing is to look at institutional theory. Since the early 1990s, the people of Albania have worked hard to build a market-based economy, democratic institutions, and the rule of law. The government has not been able to do its job well because of institutional problems like not having enough administrative power, politics in public groups, and threats to the independence of the judiciary. From an institutional perspective, these issues reveal enduring challenges such as volatile politics, ambiguous regulations, and constraints on the expansion of small enterprises. The theory helps us understand how the strength of institutions affects the relationship between Albania's political stability and its economic growth.

The fact that Albania is joining the European Union is another example of how helpful institutional theory is. A country has to make big changes to its laws, institutions, and government in order to join the EU (European Commission, 2021). Reforming the courts, taking steps to fight corruption, and bringing the public administration up to date are all things that will make formal organizations stronger and more trustworthy. According to institutional theory, these reforms will only work if they are not only changes to the law but also how well they are carried out and how well society accepts them (North, 1990). So, the example of Albania shows that building institutions takes time and has a direct impact on the stability of the government and people's trust in the private sector.

Political economy theory examines the interconnections between political and economic systems. It looks at how government policies, power dynamics, and economic goals all affect each other (Gilpin, 2001). Political economy theory, on the other hand, says that political choices, institutional arrangements, and how power is shared among social actors all have an effect on economic outcomes. This method is great for finding out how the stability of the government, policy choices, and political incentives affect the growth of businesses, investments, and the economy.

The state has a big impact on political economy theory because it affects how markets work. Governments influence the economy through taxation, regulation, expenditure, and the enforcement of property rights (Stiglitz, 2000). Political economy experts say that these policy choices are often based on political reasons rather than just economic efficiency. Because of this, unstable politics, frequent changes in government, or divided political environments can make policies inconsistent, make investors less confident, and hurt the economy (Acemoglu & Robinson, 2012). Small and medium-sized businesses (SMEs) are very sensitive to changes in rules and policies, so the political climate is very important for them.

Political economy says that small and medium-sized businesses are a part of the economy, the government, and society as a whole. Politics affects how they make money, how they compete fairly, and how the rules help them, all of which are important for their growth (Beck et al., 2005). Small and medium-sized businesses may have trouble in places where political power is concentrated or where people are always looking for ways to make money. These problems can help larger companies or companies that are involved in politics.

Political economy theory can help us figure out why small and medium-sized businesses might not be able to grow, even though there is a demand for them. This is especially true in places where politics and society are changing.

For instance, political economy theory can help us figure out how safety in politics, good government, and economic growth are all linked in Albania. Politics can have an effect on the economy, as seen by the fact that there are disagreements in Albania about reforms and the government and businesses changing their alliances (Freedom House, 2022). The idea says that we need to do more than just let the market and small and medium-sized businesses grow. We also need a government that is responsible, politics that are stable, and rules that everyone must follow. This theory builds on institutional theory by looking at how Albania's political goals, interests, and power have affected its economy.

3. METHODOLOGY

The purpose of this study was to learn what young people in Albania think about the role of small and medium-sized businesses (SMEs) in the economy and how political stability and good governance affect the growth of SMEs. Small and medium-sized businesses (SMEs) are very important for the economy and for creating jobs. It is important to know how people who want to start their own businesses and people who will be looking for work in the future see the political, institutional, and economic situation. The primary objective of the thesis is to examine the impact of political stability on the growth of small and medium-sized enterprises (SMEs) in Albania. This research directly endorses that objective.

For the study, a structured questionnaire was sent out online to people between the ages of 18 and 24. Most of the people who took part were college students, either undergraduates or graduates. This group of people was chosen because they will be very important for Albania's economy to grow in the future. Young people might start their own businesses and work in the SME field in the future. People were asked how much they knew about small and medium-sized businesses (SMEs), how stable they thought the government was, how they felt about the business environment, and if they were ready to start a small business after school.

The study's opinion and perception questions gave a complete picture of how people feel about small businesses and the government. Many people said they thought small businesses were very important for jobs, growth, and new ideas. Starting a small business in Albania was not easy. They also thought about how well the government worked and how politics affected the growth of small businesses. People were also asked to write down what makes it easier for small businesses to grow and what makes it harder for them to start their own.

Real-life statistics can teach us a lot about how Albanian teens and young adults feel about politics, the government, and other things that are important to them. In a market that is always changing, problems with the government, crime, and rules can all change how business owners act. This is why these ideas are so important. There is a study that examines the impact of political and institutional factors on the growth potential of small and medium-sized enterprises. It does this by putting together different points of view with political economy theory and institutional theory.

This survey-based study enhances the thesis by investigating empirical phenomena through theoretical analysis. It shows how young people feel about business and government in general. It also talks about the main problems that they think are stopping small businesses in Albania from growing. The data will be employed to assess the thesis assumptions and to tackle the research questions outlined within the thesis framework.

3.1 Study Area

Albania is a country in Southeast Europe where the political and institutional systems are changing and the economy is moving from being planned to being based on the market. Albania's politics and economy have changed a lot since the early 1990s. It used to be a centrally planned system, but now it is based on the market. Small and medium-sized businesses (SMEs) are now a big part of the economy. They make jobs and help the private sector grow. But there are still problems that need to be fixed, like political stability and how the government works. This is a good example of how politics can make it harder for small and medium-sized businesses to grow in Albania.

Small and medium-sized businesses make up the majority of Albania's economy. They do a lot of different things, like trade, services, tourism, construction, and making things. The political situation in the country, which has seen times of division and institutional upheaval, has a direct impact on the regulatory and business climate in which small and medium-sized enterprises (SMEs) operate. Albania is a great place to learn about how people's opinions on government affect business growth and entrepreneurship because it has a lot of small and medium-sized businesses and its political climate is changing.

The research does not concentrate on a specific city or region. Instead, it focuses on young people from all over Albania, most of whom are college students in their first or second year. People in this group come from all over the country because they live or go to school in cities and towns. This study focuses primarily on youth, as it pertains to future business owners and employees. Politics and the economy, both at the national and local levels, shape how they think.

Albania is a good place to study because it is going through a transition, relies heavily on small and medium-sized businesses, and is working to improve political stability and governance. The study examines the business environment from a national perspective through the lens of youth, rather than focusing solely on a specific region. The main goal of the thesis is to find out how political stability affects the growth of small and medium-sized businesses in Albania. This method fits with that goal.

3.2 Population and Sample

This study is intended for individuals employed by or associated with small and medium-sized enterprises (SMEs) in Albania. The research primarily focuses on small business owners and managers within the Albanian economy. The study focuses exclusively on individuals aged 18 to 24, who are predisposed to becoming entrepreneurs and employees within the SME sector in the future. This group is very important because what they think and plan will probably have an effect on the future growth and survival of small and medium-sized businesses in Albania. The main focus of the research is on Albania, especially urban and semi-urban areas like Tirana, Durrës, and Shkodra, which are home to most of the small and medium-sized businesses (Thoma, Boshnjaku, & Dafa, 20252). Some of the biggest problems that small businesses in Albania face are unstable politics, bad infrastructure, and policies that are not always followed (OECD, 2019; Shahini, 2016).

It makes sense to choose this group because young people are very important to the economy and business in Albania. It is very important to know what makes young people want to start their own businesses because Albania has problems like young people not being able to find jobs and people leaving the country. Some of the people who answered are not current business owners or managers, but their answers give us a lot of useful information about what they think are the problems and things that help small and

medium-sized businesses (SMEs) grow. Some of these are things like having a stable government, good government, and getting money. Their perspectives thus augment existing research focused on established entrepreneurs.

The study employs a non-probability sampling technique, specifically convenience sampling, due to practical constraints related to time, accessibility, and resource availability. Respondents were recruited through online platforms and academic networks, enabling effective data collection from university students across Albania. This sampling method does not facilitate comprehensive statistical generalization; however, it is frequently utilized in exploratory and perception-based research and is appropriate for examining attitudes and opinions within a defined demographic cohort.

The final sample has 200 people in it, all of whom are between the ages of 18 and 24. The sample consists of both males and females from diverse educational backgrounds, primarily comprising Bachelor's and Master's students. This sample size is large enough for a quantitative study that wants to find patterns and common opinions, but not for one that wants to find out what causes things to happen. The age group is pretty similar, which makes the internal consistency stronger and makes it easier to understand how people feel about the growth of small and medium-sized businesses and political stability.

The community and sampling method that were chosen are important, but they do have some problems. The results are based on what people think instead of what they have actually done in business because small business owners and managers were not included. The results of this study are not applicable to the entire Albanian population due to the limited sample size and non-random methodology. This group is useful for this thesis because it shows how young people think. These people will probably have a big effect on how small businesses in Albania grow in the future.

4. EMPIRICAL ANALYSIS

4.1 Demographic Profile of Respondents

The survey sample has 200 people, all of whom are between 18 and 24 years old. All of them are young adults who are either in college right now or just graduated. Most of the people who took part are women, and the people who answered are split between those who are working toward a Bachelor's degree and those who are working toward a Master's degree. This group of people is very important to the study because it includes educated young people, who make up a large part of Albania's potential entrepreneurs and skilled workers. What they think about the country's political stability and business climate gives us an idea of what the next generation thinks.

4.2 Level of Information about SMEs

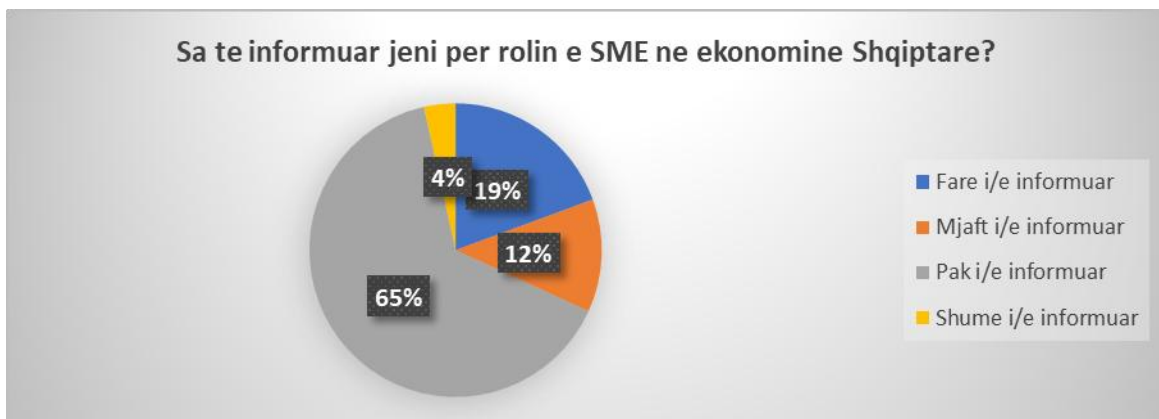


Figure 4. 1 Level of Information about SMEs

People who answered said they did not know much about how small and medium-sized businesses (SMEs) fit into the economy of Albania. A smaller group said they knew a lot about it. People who answered said they did not know much about how small and medium-sized businesses (SMEs) fit into the economy of Albania. A smaller group said they knew a

lot about it. This shows that teens and young adults have some idea of how small businesses help the economy. A lot of the people who answered may not know much about technology, but the fact that SMEs are thought to be important to the economy shows that they are right. For the purposes of this thesis, this moderate level of awareness increases the reliability of their responses concerning business contexts and political implications.

4.3 Perceived Importance of SMEs in the Economy

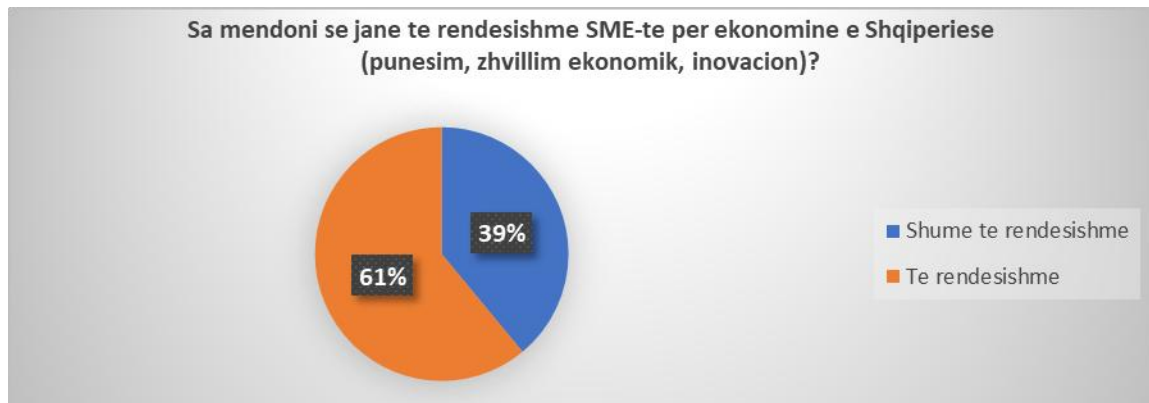


Figure 4. 2 Perceived Importance of SMEs in the Economy

Most of the people who answered said that small and medium-sized businesses (SMEs) are important or very important for jobs, economic growth, and new ideas in Albania. This strong agreement shows that people think SMEs are very important for the economy of the whole country. The finding confirms the importance of this research topic, as it shows that most people think that the growth of SMEs is very important for Albania's economic progress. So, any political or institutional factors that affect how well small and medium-sized businesses (SMEs) do are likely to have a bigger effect on the economy as a whole.

4.4 Perceived Difficulty of Starting a Small Business



Figure 4. 3 Perceived Difficulty of Starting a Small Business

Most of the people who answered the survey said that starting a small business in Albania is hard or very hard. A small number of people said it was easy. This means that most people think the business world is hard and might even scare off new people. These kinds of perceptions show that there are problems with the structure of the business world, such as complicated rules, wasteful bureaucracy, not enough money, and rules about governance that are not clear. These results are directly related to the thesis because they show the bigger picture of the political and institutional environment that small and medium-sized businesses work in.

4.5 Perceived Political Stability



Figure 4. 4 Perceived Political Stability

A lot of the people who answered said that the government and political system in Albania right now are either "somewhat unstable" or "not stable." A lot of people did not think it was "relatively stable." People think this way because they believe that political institutions are unstable and hard to predict. This finding is very important for this study because it backs up the idea that young, educated people are still worried about political stability. This could change the way they think about the economy and how they run their businesses.

4.6 Perceived Impact of Politics and Governance on SME Development



Figure 4. 5 Perceived Impact of Politics and Governance on SME Development

Most of the people who answered think that politics and government have a big impact on how small and medium-sized businesses (SMEs) grow in Albania. A smaller number think the effect is not very strong or not very strong. This means that a lot of people believe that politics has a big impact on how well businesses do. The outcome directly corroborates the principal thesis assertion that political stability, sound governance, and efficient institutions are crucial determinants in the expansion of small enterprises.

4.7 Key Factors Influencing SME Success

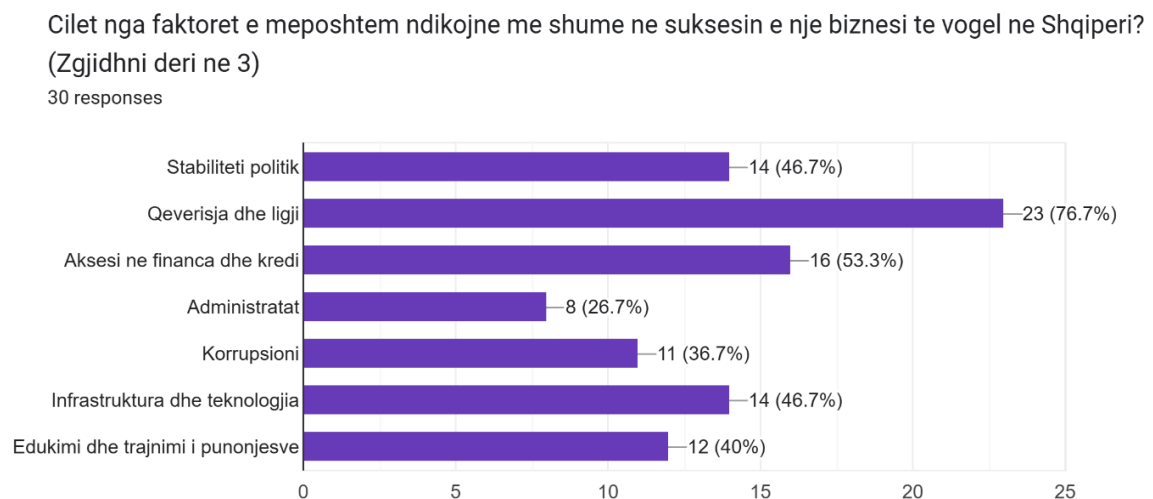


Figure 4. 6 Key Factors Influencing SME Success

What would make Albanian small businesses successful? Most of the people who answered said that it would depend on things like political stability, corruption, access to money and credit, public administration, infrastructure and technology, the education and training of the workforce, good governance, and the rule of law. A lot of people talked about government issues, such as how corrupt it is, how stable it is, and how good the institutions are. People who took this survey think that the success of small businesses is more affected by the institutional and governmental environments than by their own skills. The numbers back up their claim that problems with politics and institutions have a big effect on how well small businesses grow.

4.8 Entrepreneurial Intentions



Figure 4. 7 Entrepreneurial Intentions

A lot of the people who answered said they would think about starting a small business after they finished school, but only a few said they wouldn't. This means that young people in Albania might be able to start their own businesses, but things outside of their control might make it harder for them to do so. If people want to start their own businesses, it means that political and institutional stability could help more small and medium-sized businesses get going and grow.

4.9 Reasons for Not Starting a Business



Figure 4. 8 Reasons for Not Starting a Business

People who said they would not start a business usually meant they did not have enough money, were worried about politics, or did not know enough about it. The biggest problem was not having enough money. There were also a lot of red tape and a weak government. This shows how economic and political factors can affect business choices. The results of this thesis show that problems with the government and political instability make it hard for businesses to take risks and make long-term investments. This makes it harder for small and medium-sized businesses to grow.

5 CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary of Key Findings

It was the purpose of this study to find out how political stability affects the growth of small and medium-sized businesses (SMEs) in Albania. Specifically, the study looked at what young entrepreneurs thought and how the business environment really was. Primary and secondary data were both used in the study. 30 people between the ages of 18 and 24 were polled to get the primary data. The secondary data came from reputable organizations such as the World Bank, OECD, and Transparency International. Some key trends were found in the study that help us understand how small and medium-sized businesses (SMEs) in Albania grow.

First, we looked at the demographics of the people who answered and saw that most of them knew how important small businesses were to the Albanian economy. Both men and women, including those working on their Bachelor's or Master's degrees, agreed that small businesses are important for creating jobs, coming up with new ideas, and making the economy more diverse. People who answered said that small businesses have big problems, even though they are thought to be important. Some of these problems are unstable governments, hard-to-follow rules, and not enough money.

Second, it was decided that the Albanian government was becoming more stable, but it is still not very stable. The World Bank's Political Stability and Absence of Violence/Terrorism index shows that Albania's numbers on this issue have been slowly getting better over the past few years. Scores are still lower than the European average, though, and there are still big problems with the government, like how people feel about corruption and how well it works.

People who took the survey agreed with these results, saying that the political and regulatory environment is very unstable, which makes it hard to start and grow a business because of corruption, instability, and poor governance.

Third, signs that small businesses are growing show that almost 99.9% of all active businesses in Albania are small and medium-sized businesses (SMEs). Small and medium-sized enterprises (SMEs) significantly impact employment and the economy; however, there remain issues regarding their operations. According to reports from the OECD and the EU Enlargement, Albania has made some progress in making it easier to register businesses, streamlining government processes, and setting up digital governance frameworks. But the private sector still has problems with not being able to get enough money, having bad infrastructure, and having workers who do not have all the skills they need. People who answered consistently said that these were the main things that made it hard to start or grow a small business.

Fourth, the study found a strong link between how well small businesses do and how stable people think the government is. People said that businesses that wanted to do well should pay close attention to politics and the government. Secondary research backs up these ideas. People will not trust businesses, invest wisely, or help the market grow if they lie, are bad leaders, or break the law. The study shows that young people in Albania who want to start their own businesses know they can trust the government and other groups.

Finally, both primary survey data and secondary literature demonstrate that various factors are crucial for the development of the Albanian SME sector, rather than solely individuals seeking to create their own businesses. It also relies on larger structural and institutional factors. People think that fighting crime, keeping the government stable, and making sure there is no political unrest are some of the best things that can help small and medium-sized businesses stay open. According to institutional theory, for the economy to grow, organizations must build trust and make it easier to do business.

5.2 Conclusion

The study's results show that the security provided by the government has a big effect on the growth of small businesses in Albania. Small and medium-sized businesses (SMEs) are

very important to Albania's economy. For these businesses to grow, the country needs stable politics, a clear government, and reliable institutions. The study found that even small amounts of uncertainty, like a slow government, police that do not always do their jobs, or corruption, can make it hard for people to start their own businesses and for those businesses to grow.

For small and medium-sized businesses (SMEs) in Albania to grow, the government needs to be stable. When the government is stable, the rules are clear, and there is less corruption, small business owners feel better about their businesses. There is more investment, innovation, and growth in the market as a result (Boudreaux, Jha, & Escaleras, 2022; Alfirević, 2025; OECD, 2019). But bad institutions and unstable politics make it harder to get money, start a business, and plan for the future (Yang, 2016; Shahini, 2016).

The study further demonstrates that political stability affects SME growth both directly and indirectly. Stability directly affects how well rules are followed, how easy it is to get money, and how reliable public institutions are. These things are all very important for starting and running a small business. Stability has an indirect effect on how confident entrepreneurs are and how willing they are to invest in new businesses. People who took the survey all said they were worried about uncertainty and how it would affect the success of their businesses.

Both primary and secondary sources say that Albania has made small steps toward strengthening its institutions, improving its regulatory frameworks, and increasing its governance structures. But these changes are still weak and not consistent, which makes it hard for small and medium-sized businesses to grow, come up with new ideas, or get into new markets. Using both primary survey data and secondary indicators to show that making politics more stable would likely help the economy grow over time by speeding up the growth of small businesses and creating more jobs.

This study adds to institutional theory by showing that it can be used in the context of Albania. The idea is that institutions that are strong, open, and work well make things less uncertain, encourage investment, and help businesses grow. The study's results provide additional evidence for this assertion by showing that political stability and effective governance are not just ideas, but real things that affect how businesses run in Albania.

Finally, the study shows that political stability is good for small businesses and helps them grow. If the political and institutional environment is not stable, even young businesspeople who are very motivated will have a hard time starting, running, and growing their businesses. So, making sure the political situation is safe is good for the economy as a whole and also important for helping Albania's small and medium-sized businesses grow and compete.

Policymakers should prioritize regulatory reform, anti-corruption initiatives, and infrastructure development to facilitate the success of small and medium-sized enterprises (SMEs) (OECD, 2019; Afande, 2015). Improving institutions and governance can lower barriers, make it easier to get credit, and help the economy as a whole (Boudreaux, Jha, & Escaleras, 2022; Thoma, Boshnjaku, & Dafa, 2025).

5.3 Key Implications

1. **Policy Implication:** To help small and medium-sized businesses (SMEs) get money, lower the barriers to entry, and make sure that regulatory processes are clear, it is important to improve the stability of the government and the rules that govern it.
2. **Economic Implication:** Entrepreneurs may feel more confident when the political climate is more stable. This can help small and medium-sized businesses (SMEs) hire more people and boost the economy as a whole.
3. **Social Implication:** You can help young people who want to start their own businesses by making the world a safe and helpful place. This will help people learn new things, come up with new ideas, and gain more power in their communities and economies.
4. **Future Research Implication:** Longitudinal studies could examine the impact of minor fluctuations in governmental stability on the growth trajectories of small enterprises and the decisions made by their owners over time.

5.4 Recommendations

1. Strengthen Political and Institutional Stability

The government should work to make the political situation more stable and trustworthy. This means always following the law, getting rid of government agencies that do not do anything useful, and making long-term plans for how to run the country that will make politics less unstable. Small and medium-sized businesses would feel more comfortable spending, growing, and coming up with new ideas if there were changes to how digital governance works, efforts to fight corruption, and open policymaking.

2. Implement Regulatory and Administrative Reforms

Making the rules easier to follow is very important for small and medium-sized businesses to grow. The government should make it easier to register a business, cut down on the number of licenses needed, and move administrative tasks online. Also, making it easier and cheaper to get permits and follow the rules can help entrepreneurs, especially young people and people starting their first business, get started.

3. Enhance Access to Finance

Small and medium-sized businesses should have an easier time getting loans thanks to credit guarantee programs, microloans, and good relationships with banks. Changes to the rules should be about this. Better financial education programs and specific rewards can help new businesses get the money they need to grow and come up with new ideas.

4. Invest in Workforce Development and Skills

Small and medium-sized businesses need help from people who know what they are doing. The government should focus on vocational training, professional education, and workshops on how to start a business. They should work with colleges and business people to make sure that college graduates learn how to run small and medium-sized businesses, use technology, and come up with new ways to do business.

5. Promote SME-Centered Economic Policies

The government should include programs in its larger economic plans to help small and medium-sized businesses (SMEs) use new technology, sell their goods abroad, and get

help in some areas. If small and medium-sized businesses have rules that encourage digitalization, local innovation, and environmentally friendly operations, they will be more competitive and able to handle stress.

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