INTERNATIONALISATION STRATEGIES OF SMES IN ALBANIA. THE INFLUENCE OF BUSINESS CLIMATE. DEVELOPMENTS AND PROSPECTS

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Abstract
International competition, that is developing into an increasingly globalized economy, is causing businesses to expand beyond their national borders to safeguard and strengthen their competitive advantage. Thus, the present study, based on observing the Balkan scenario, is going to analyze the Albanian market which, by its geographic proximity, its favourable climatic conditions, the spread of the Italian language, as well as its low labour cost is able to attract the interest of Italian investors. In addition, the work is intended to assess, first, whether the improvement of business climate has helped in a dynamic and innovative development of the Italian entrepreneurship in the area and, secondly, to understand how it has influenced the process of internationalization of Italian firms in the country, through an analysis of their spreading in the area, of the sectors in which their presence has concentrated and of any economic benefit realized.

The analysis has been carried out by examining the results of a survey including interviews with the managers of the companies located in Albania, based on ten indicators: Starting a Business, Dealing with Construction Permits, Employing Workers, Registering Property, Getting Credit, Protecting Investors, Paying Taxes, Trading Across Borders, Enforcing Contracts, Closing a Business, the improvement of which may produce beneficial effects on developing local and foreign entrepreneurship in the country.

Keywords: Enterprise, Start-up, International Business, Growth, Albania.

1. Introduction
The globalization of markets is increasingly encouraging companies to consider internationalization as a component now radically implemented in corporate strategies, regardless of the aim they wish to pursue.

At present, the world scenario is marked by an international crisis showing a clear contrast between industrialized countries, on one side, now in recession, and developing countries, on the other one, with a GDP (Gross Domestic Product) which is positive up till now. In the former, the firms which are experiencing crisis are seeking to raise new sources of competitive advantage beyond their national borders, in order to reduce production costs, and to place their products on new markets to expand the demand, in an attempt to be revived.

The latter, especially those involving the areas of South East Asia and the Balkans, are undertaking a path of reforms aimed at attracting international investors who are able to promote a further development of these economies with their expertise and their know-how.

This situation has made the decision process much more complex than before, because of the number of variables coming into play that the top management of a company should carefully weigh up to avoid unfortunate business choices. Therefore, more than in the past, in order to evaluate the degree of attractiveness of the country where a business wishes to operate, various factors are to be considered, such as the general economic situation of the country itself, its political situation and infrastructure availability, the banking system reliability, currency stability, tax laws and bookkeeping system, rules of corporate law, tariff system and price regulation, standards for the protection of innovative activity, the
attitude of public administration, the business climate towards foreign business, etc.
Thus, following the above-mentioned variables influencing the business internationalization-oriented strategic plan, the present work will be focused, in particular, on the business climate in the Balkan region, which seems to be constantly changing because of the dynamism of its reformist countries.
In particular, following a survey carried out by the World Bank, Albania ranks 2nd out of 183 countries thanks to the reforms implemented from 2007 to 2008, thus turning to be the most reformist country in the Balkan area (World Bank 2008). Therefore, in the light of the reforms implemented and without any pretention to be exhaustive, the aim of the present study is to assess whether or not the data, collected through the survey carried out by the World Bank, record an improvement in the business climate in the country of eagles.
Subsequently, the paper aims at investigating whether and to what extent, the reforms implemented have had an economic and social impact on companies and whether the evolution of the business climate has been able to influence business strategies and to change them compared to the past.
Finally, in the last part, the report examines the possible impact that the reforms have had on the first international investor in the country, namely Italy, through analyzing the effect of such reforms on businesses from a dimensional, territorial and sectoral point of view.

2. Methodology
The starting point for the methodology adopted was the survey carried out by the World Bank and elaborated in the annual report drawn up by the team of Doing Business in collaboration with experts from academia and involving 183 countries.
The report considers a standard case study of companies (advancing hypotheses concerning their legal status, their size, their market position and the nature of the operations carried out); the final results can be compared both between the countries and over the time.
The report has been drawn up by interviewing more than 8,000 local experts (lawyers, accountants, business consultants, government officials, shippers) who answered questions about legal and tax issues, either in writing or by holding conferences or visiting personally the country involved.
Ten indicators, considered as valid for all countries, were selected for the survey as follows: Starting a Business, Dealing with Construction Permits, Employing Workers, Registering Property, Getting Credit, Protecting Investors, Paying Taxes, Trading Across Borders, Enforcing Contracts, Closing a Business (World Bank 2010).
The results were then carefully reviewed by the team of Doing Business in order to ensure the reliability of the survey, highlighting the possible regulatory barriers to the enterprise development and focusing on what needs to be reformed to improve business climate in different countries.
In particular, in this paper the authors have centred their research on Albania, taking into account those issues that were reformed in the country; the final results were then compared with the average data collected from the Balkan and Central Asian countries (World Bank 2010).
Thus, the analysis has focused mainly on four of the ten indicators and, specifically, those relating to: starting up a business, improving information about credit, strengthening investor protection and reducing the taxation system (World Bank 2008).

1 In collaboration with the IFC (International Finance Corporation).
These aspects were tackled by treating briefly the main reforms implemented and their impact on businesses. These results were then compared with the average data collected from the area which the country belongs to (i.e. Eastern Europe and Central Asia macro-area) that includes, in all, apart from Albania, another 26 countries, namely: those of South Eastern Europe, members of CEFTA\(^2\) and of the EU,\(^3\) the Baltic Republics\(^4\), as well as such countries as Armenia, Azerbaijan, Belarus, Cyprus, Georgia, Kazakhstan, Kyrgyz Republic, Russian Federation, Tajikistan, Turkey, Ukraine, Uzbekistan (World Bank 2010). It has to be specified, as the team of Doing Business acknowledged, that the interpretation of statistics, however, involves some problems that characterize the method of doing business. A major requirement for the methodology is that the company is aware of all the necessary information about how to operate and how to complete the procedures, otherwise the time needed for their fulfilment would be longer.

The statistics relate to the most economically important towns in the country and concern limited liability companies (or similar). In addition, the standard case analysed only considers some specific issues and not all the problems affecting a company and the indicators issued represent the average of the various answers by the interviewees (World Bank 2010).

3. Reforms

a) - The first indicator examined is related to business starting up. It was facilitated by the abolition of the obligation to register before the Court and the Chamber of Commerce. The usual procedure is now completed through registration in the commercial and fiscal register, sent in by the directors or an authorized representative at the National Registration Centre (QKR 2007), followed by social security registration and subsequent registration at the employment job centre.

The registration at the National Centre involves drafting a form signed by the directors and accompanied by documents identifying the partners and by the Statute, which is normally presented after 15 days from the establishment of the company. Thus, Albania ranked 68\(^{th}\) in 2009 for this indicator and it is expected to rank 46\(^{th}\) out of the 183 economies examined, in 2010 (World Bank 2010). Streamlining bureaucracy was evident in the country considering that the number of procedures has been halved from 10 in 2008 to 5 in 2010 and that the number of days needed to complete the whole procedural process to start up a company has been reduced, from 36 days in 2008 to 5 working days in 2010, also due to the activation of electronic filing.

Speeding up the procedures to start up a business was also accompanied by reduced costs to be born by the new companies. In terms of percentage on per capita income, costs have dropped from 25.6% in 2008 to 17% in 2010, whereas the minimum capital for limited companies (limited liability company) has been reduced from

\(^{2}\) Central European Free Trade Agreement. The new CEFTA was born on November 9 2006 in Brussels and was officially signed on December 19 2006 at the south-eastern Europe Prime Ministers Summit in Bucharest. The new agreement was signed by Albania, Bosnia and Erzegovina, Croatia, Kosovo, Macedonia, Moldova, Montenegro and Serbia. Between July and September 2007 the agreement was ratified in all the member countries.

\(^{3}\) The countries belonging to the area, which are members of the European Union are the following: Bulgaria, Slovenia, Romania and Poland.

\(^{4}\) Estonia, Lithuania, Latvia.
100,000 Leks to only 100 Leks (less than 1 Euro); similarly, the percentage of the minimum capital that previously had to be compulsorily paid in advance before the establishment and registration of the company in the commercial register was abolished.

A comparison with the average data collected in the other countries of Eastern Europe and Central Asia shows that these indexes are better in three cases out of four and, particularly, as regards the number of procedures in the country up to 5 against 6.7 in the area, the number of days to complete bureaucratic procedures up to 5 against an average of 17.4 days and the minimum capital that was zeroed against an average that is around 21.5% of per capita income in the area analysed.

Only costs, which accounted for 25.8% of per capita income in 2009, are still high despite the efforts accomplished, being today over double the average of 17.0% compared to 8.3%.

b) – As to the second indicator considered, the improvement of information about credit, the reform implemented, which includes the establishment of a new credit public registry, provides detailed information on the amount of loans granted both to individuals and businesses, ranking the country 15th in the world list for this indicator (World Bank 2010).

In particular, among the most significant indexes, two of them are worth noticing. The first one describes the effectiveness of security and bankruptcy laws that would facilitate getting loans, showing an optimal value being equal to 9 on a scale of values of 0 to 10, well above the average of 6.6 of the countries in the area; the second relates to the degree of accessibility and quality of information about credit that can be found in public or private registries, with a value of 4 on a scale of 0 to 6 and that can be considered satisfactory and in line with the average of the area.

Another index considered, turning to be in line with the average, is related to the percentage of businesses and private individuals surveyed in the public registry providing data on the unpaid debts or credits in the last 5 years; the above index reaches nearly 10% of the adult population (aged over 15 years), while, at the moment, there is not any private credit registry in the country yet.

c) - Another important item to be reformed in order to boost foreign investment in Albania, was, undoubtedly, that relating to the strengthening of the protection of investors who, until recently, had no certainty about the outcome of their investments.

The government has thus made a law on enterprises and trading companies that would guarantee the small shareholders (World Bank 2009).

The law provides that shareholders authorize direct transactions between the parties in clash of interests when representing more than 5% of the company’s capital and, for this reason, it provides for improved information sharing.

This law marks a turning point in Albanian corporate law, since it allows minority investors to take legal proceedings for damages, against those directors who were guilty of poor corporate management.

Moreover, minority shareholders are also allowed to claim damages from those directors (who currently have a 5-year term) who made transactions in clear clash of interests with the company.

A further boost to raising capital in the country, while protecting investors, was given by the passage of the Law on collective investment that will develop in the country investment funds and investment companies, subject to previous approval by the Albanian financial supervisory authority (World Bank 2010).

In particular, the above-mentioned Law will give considerable impetus to new forms of financing represented by venture capital funds, but, above all, by Business Angels (EBAN 2006), playing the dual role of investors and excellent leadership.
within start-up companies, able to achieve, with their managerial know-how and their contacts, profitable investments, winning strategies, cautious fiscal policies and fair personnel management.

More specifically, the law provides for the conditions, establishment criteria, registration and operation of collective investment companies as well as the legal acts by third parties on behalf of the companies themselves.

Thanks to these reforms, the country ranks 15th in 2010, as to the indicator related to investors’ protection, in the international list drawn up by Doing Business (World Bank 2010).

In particular, the various indexes under consideration show, in two cases out of three, values being significantly better than the average of the countries of Eastern Europe and Central Asia.

In fact, considering a scale of 0 to 10, the above indexes show a score of 8 with regard to transparency and information sharing, against the average of 6.1 for Eastern Europe and Central Asia; a score of 9 as regards a heavier responsibility of the management in case of abuse of the company's property, while as to a better chance of taking legal proceedings against directors for mismanagement of the company, the result is still slightly below average and is equal to 5 against 6.1 in the area.

However, the index relating to investor protection representing the average of the three indexes analyzed shows, again on a scale of 0 to 10, a very satisfactory value equal to 7.3 which appears to be well above the average of the area equalling 5.5.

d) - In the tax field, a series of important fiscal reforms were made, to give greater impetus to foreign investment.

First of all, the flat tax was introduced that halves at 10% the personal and corporate income tax, accompanied by the abolition of double taxation on corporate income and individuals who reinvest their proceeds in the companies (ICE 2009).

In addition, to combat tax evasion a ban was put on cash transactions for amounts exceeding 300,000 Leks (about 2,300 Euros) together with the possibility for companies to use cash for an amount up to 10% of their turnover (ICE 2009).

In this light, the cap for those companies which are exempt from VAT was lowered to 5 million Leks (approximately 36,250 Euros; the previous limit was 8 million Leks, i.e. about 58,000 Euros). Another aspect of considerable importance is related to the introduction of high technology and the know-how of foreign investors, that the government firmly wished so that to decide, in order to attract them, to let them have the land for the symbolic price of 1 Euro to start up businesses (Maraku 2006).

These reforms have led the country to progress in the world rankings from 145th to 138th, in 2009 and 2010 respectively (World Bank 2010).

It has to be specified that taxes are considered in a broad sense, because they include such taxation as the corporate income tax, land taxes, registration taxes on property transfers, capital yields and capital gains taxes, the taxes on financial transactions and on motor vehicles, car taxes and garbage taxes, social security fees paid by employees to a mandatory pension fund and VAT (Value Added Tax).

In detail, almost all indexes are better than the average of the area countries; in fact, as an example, the number of taxes paid has been reduced to 44 against an average of 46.3.

An even more significant index is the one representing the streamlining of bureaucratic procedures (preparation, declaration and payment of taxes) which is

5 For information about the new scheme concerning VAT (Value Added Tax) see: ICE (2010). New Scheme for VAT.
lower by almost 100 hours compared to the countries of the area (244 hours against an average of 336.3 hours). Even the percentage of taxes on profits is lower than the average 8% compared to 10.9%, as well as the other taxes are equal to 5.1% against 9.4% of the area. One can, however, observe that the welfare contributions still affect heavily the firms budget in Albania, amounting to 31.9% against an average of 23.1%, thus making the tax percentage rise, compared with gross profit, to 44.9% compared to the average value of 43.4%.

4. The business climate in Albania
The analysis of the reforms which have just been discussed shows how Albania has become undoubtedly one of the most active countries, not only in the Balkan region, but worldwide, when considering that in 2007-2008 it ranked second, following after Azerbaijan alone, for the number of reforms implemented. Moreover, its index of economical freedom, scoring 66 out of 100, ranks it 53rd out of the 183 economies analysed. In fact, the Government policy adopted by the country is mainly aimed at reaching two important goals. The first one is that of harmonizing the legal, administrative and institutional systems to the European development standards, in view of a forthcoming entry into the European Union. The second one is that of creating a business climate boosting the development of local enterprises, especially of foreign ones, able to promote, with their technology and know-how, the economic development of the country (ICE 2009).

The results of this policy were greatly appreciated, not only by the European Union, but also by several international bodies such as the World Bank and the International Monetary Fund (IMF). The reason for their appreciation is that, despite the current international financial crisis, the country can boast a GDP which is still positive (4.1% in the last three months of 2009), as well as a consolidation of the market economy and an increased flow of foreign investment into the country itself. Ultimately, even though the reforms were concentrated on four of the 10 indicators shown, it can be stated with certainty that they have brought about a substantial improvement in the business climate, allowing the country to progress remarkably in the world rankings drawn up by the team of Doing Business, from 135th to 89th, in 2008 and in 2009 respectively. Besides, the country is expected to rank 82nd, in 2010, out of the 183 economies examined, only following a newly industrialized country, such as Italy, ranking 78th (World Bank 2010).

5. Economic, social and strategic impact of reforms on businesses
In the light of the apparent improvement of business climate, the impact of reforms on businesses will be checked from an economic, social and strategic point of view. The analysis made leads to the following reflections.

a) - First of all, it is important to point out how the formal registration of a new

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6 The index registered an improvement of 2.5% compared to the previous year. For further details refer to: ICE (2010). Albania Registers an Improvement of the Index of Economic Freedom. http://mefite.ice.it/CENWeb/ICE/News/ICENews.aspx?cod=15339&Paese=70&idPaese=70.

company is able to attract capital more easily than an irregular one, since the shareholders are jointly involved in the creation of the company itself. This allows them to raise more easily those funds which are necessary to meet the high financial requirements needed for start-up businesses. In addition, it turns out that the streamlining of bureaucratic procedures and the reduction in costs thereof for the creation of new businesses not only increased their number but also gave a major boost to those companies operating in the country, that are now more efficient compared to the past.

In fact, the study indicates that on a sample of 97 countries included in the Doing Business rankings, a cost reduction of 80% of per capita income has increased the total productivity of businesses of about 22%. In addition, following an analysis made on 157 countries, the same reduction in entry costs results in an increase of approximately 29% of productivity per employee (Barseghyan 2008).

From a strategic point of view, this result is explained as a consequence of abolishing barriers to entry, resulting in increased competition, thus leading to, as it is the case in Mexico (a developing country like Albania), a reduction in prices of approximately 1%, which corresponds to a reduction in the income of the existing businesses amounting to about 3.5%; a situation that, in fact, induces the least productive firms to withdraw from the market (Bruhn 2008).

Another consideration, in this respect, is that relating to the movement of labour and capital from one sector to another, which greatly increases at times of financial crisis like the present one, due to the streamlining of formal procedures and reduced costs associated with starting up a business (Ciccone and Papaioannou 2007). Strategically, in fact, when the fixed costs to start up a business are high, it is more complex for entrepreneurs to work a transformation of the firm’s range of activity from one sector to another offering, at that moment, better prospects of opening up to foreign markets, reducing, as a matter of fact, the interest of the firm in entering a new market.

b) - The creation of the public registry on credit was very important for businesses that now have access, particularly in transition countries, twice as faster as large firms (Brown and Zehnder 2007).

Actually, there was an increase in the use of credit equal to 4.2%, mainly due to a higher percentage, compared to the past, of loans repaid by entrepreneurs to their financial backers (about 80% in developing countries such as Albania), because of advertising, on the register, about their degree of solvency that, if negative, would prevent them from being granted new loans, in the future (Brown, Jappelli and Pagano 2008).

The reform highlighted, among other things, makes it harder for some businesses to manage illegal income, due to a more careful monitoring than before (Claessens and Perotti 2007).

c) - The importance of implementing a reform that guarantees investors, especially the minority ones, becomes essential in a globalized financial market like the current one, allowing it to be developed while favouring the economic recovery of the country.

In fact, recent studies show that as many as 73% of the investment strategies of a company are influenced by whether or not there is adequate protection of investors (Doidge, Karolyi and Stulz 2007); witness a research on 22 emerging economies showing that investors prefer to invest their funds in companies where they hold the majority stake, due to poor development, in the country, of claims by minority shareholders against the directors of the company (Dahya, Dimitrov and McConnell 2008).

Here, then, explained the reason why, among developing countries markets, the most dynamic ones are those which, like
Albania, have intended to safeguard the protection of minority shareholders.
d) - With regard to tax cuts, the introduction of 10% flat tax as well as expedited bureaucracy have led to greater respect of the law and transparency in the enterprise accounting, thus giving new impetus to private investment and to the development of new businesses in the country. In fact, it was noted that a lower internal revenue often makes the procedures for payment of taxes easier (Diankov, Ganser, McLiesh, Ramalho and Shleifer 2008).

6. Strategies for SME development in Albania
Under the strategic plan for internationalization of business, a matter of great importance is surely represented by the mode of entry into the target market. In the light of the data analyzed and of the scenario that has been described here, it turns out that, as a result of the favourable business climate which seems to characterize the country, in recent years, entrepreneurs, especially SMEs (Small and Medium Enterprises), have oriented their choice towards a direct presence on the territory. This has recently led to a steady investment increase under various forms: the establishment of trade and production subsidiaries, equity joint ventures between Italian and local entrepreneurs almost in all areas, agreements on technology and know-how transfer, etc.. Thus, in recent years, the area has seen a remarkable growth in FDI (Foreign Direct Investment), rising from 158 million Euros in 2003 to 653 million Euros in 2008, with further growth in the first six months of 2009 amounting to 436 million Euros, as much as 90% more than the first six months of 2008 (ICE 2009).

This choice involving SMEs, which represent about 99% of local firms, was preferred to other forms of internationalization, such as, for example, direct or indirect export, for a number of characteristics that set it apart.

A first motivation is accounted for a better adaptability of the product to the specific needs of the local market, because of easier collection of information and better contact with customers. It was noted, in fact, how companies who can achieve a cost advantage resulting from their own resources (see better technology and know-how than the developing countries), tend to outsource the research and development function as well as the commercial one, leaving their business in the country of origin if the cost of transport particularly affects the total cost.

The large Italian presence is therefore explained by a competitive advantage to be achieved with their own resources (such as high technology and quality in such areas as fashion and food) that place the Made in Italy firms in a leading position in these areas, so that to encourage direct investment in the country, to exploit, for example, low labour cost that, suitably trained by Italian managers, allows significant competitive advantages. A second reason is due to the need, especially for the industrial sector, to provide a high quality pre and post-sale service, that not only allows customers to interface directly with the manufacturer, but also allows the latter to avoid the bull wip effect by eliminating the stocks-in-trade which are typical of indirect export involving a broker. (Mariotti and Mutinelli 2003). Another important reason is getting around barriers concerning tariffs or other items through operating directly abroad. It must be said, however, that those barriers were abolished for 83%, at least in Albania. In particular, SMEs are often driven by the opportunity of achieving a better control of

8 By this term it is meant the deviation of the demand in logistics.
9 In compliance with the Interim Agreement of December 1st 2006 and with the entry of the country into the CEFTA since May 1st 2007.
the market niche in which they operate 
that, mostly through a direct presence in 
the territory, allows them to be more 
efficient in a given segment. 
A motivation affecting the choice of some 
entrepreneurs to invest abroad is, surely, 
that of being able to influence the buyers 
psychologically, by the mere fact of 
belonging to a leading country in a specific 
field (as it is the case with the Made in 
Italy in the field of fashion, food, etc.). 
In addition, the main customer of a 
company often decides to internationalize, 
compelling, in fact, the supplier as well to 
follow, in order to operate in a just-in-time 
perspective involving continuous flows of 
goods between the forward firm and its 
suppliers, as to reduce the waiting 
downtime and leftover stocks in the 
warehouse. 
Finally, international contracts providing 
for the transfer of technology and know-
how are increasingly catching on, 
involving newly established firms in 
developing countries (like Albania), where 
the company that sells technology acquires 
a stake, though a minority interest, in the 
company. 
That transaction has two advantages for 
the buyer company. On one hand, it has 
not to pay the full amount for the 
transferred technology (which are paid 
through a stake) and, on the other one, the 
company secures itself the necessary 
support, by the other party, to start up and 
operate the new plant. 
The data collected show that the reform 
that guarantees minority investors has 
given a particular impetus to the creation 
of equity joint ventures both on an equal 
and on a minority basis. 
Furthermore, the starting up of new 
businesses, favoured by the creation of a 
single specific reference counter and by 
the streamlining of bureaucratic 
procedures, has led investors to orient 
themselves mostly towards greenfield 
investment, rather than to the acquisition. 
Indeed, SMEs prefer greenfield investment 
which is considered as less risky than 
acquisition because of the possibility of 
deferring the investment over time and of 
operating gradually in the foreign country, 
through successive stages starting, for 
example, with a sales department, then 
followed by a warehouse and a first phase 
of assembly, up to the completing of the 
whole production process. 
Moreover, this kind of investment allows 
firms to benefit from the competitive 
advantages of the parent company and 
from their cultural homogeneity. 
From here, it can be inferred, supported as 
well by empirical data resulting from a 
survey carried out on 287 foreign 
associated firms operating in 22 countries 
and belonging to 104 international 
companies, that the global strategic 
orientation, compared with the multi-
domestic one tends to prefer greenfield 
investments allowing, among other things, 
better control from the parent company 
because of the numerous managers it sends 
(Valdani and Bertoli 2006). 
This strategy is indeed realized, when local 
authorities stimulate the entry of foreign 
companies, if the latter have sophisticated 
technology secured by patents or the 
know-how of the company owner, in the 
presence of significant economies of scale 
and if they have plants producing beyond 
the absorption capacity of the country 
demand, as well as a high value-added 
transport of goods which is considered not 
to be economically disadvantageous for 
the company. 

7. Italian presence in Albania 
As noted in the introduction, the main 
partner of the investment in Albania is 
definitely Italy. 
What is meant to be tested is whether that 
presence has been strengthened or not by 
improving the business climate, and in 
what sectors and geographical areas of the 
country it has focused. 
The data collected show that this presence 
has definitely increased compared to the 
past as to FDI, so that to reach, in 2008, 
the maximum value of 34% for
commercial exchange amounting to 1,510.63 million Euros and nearly to double the value referring to 2002, amounting to 807.88 million Euros (ICE 2009).

The strong presence of Italian SMEs, which began around the mid 90s, is certainly explained by geographical proximity and favourable climatic conditions, as well as by the spread of Italian language and low cost manpower that allows business costs to be significantly reduced.

However, the constant growth, from 2002 till today, is due to a deep renewal that has pervaded the Italian management that, unlike the competition, was able to penetrate into the Albanian market through the introduction of new technologies and new management systems.

The sectors in which the Italian presence has been further strengthened are those of the traditional Made in Italy (clothing, knitwear, footwear), as well as such sectors as building, fish processing and wood.

As for the size of the SMEs that, as noted above, represent more than 99% of the total, 94% are considered micro enterprises (up to 5 employees), midsizie business (20 to 80 workers) account for 5.5% of the total and, finally, the remaining 0.5% represents large companies, that are about 900, declaring an annual turnover exceeding 1.5 million Euros.

Of these, about 73% work in the field of high value-added service industry and 11% work in the industry, while as regards the territorial location, about 50% are located between Tirana and Durres, and only 0.6% in the area of Kukës, in the North of the country (ICE 2009).

8. Conclusions

The research pointed out that, at this time of international crisis, many developing countries are able to reform their economies much more rapidly than developed countries.

In particular, these reforms are targeted primarily at improving the business climate in the country, in order to attract, more easily, those foreign entrepreneurs able to mobilize, in a shorter time, the technology and know-how needed to develop national economies.

Among the most dynamic areas in this sense, the Balkans are worth mentioning, where Albania is the reformist country above all others.

The work has shown that reforms, in the country, have been centred on four indicators such as starting up a business, improvement of information about credit, strengthening investor protection and reducing taxation; besides, it has underlined how the apparent improvement in the business climate has led the country to rank 82th in the world list, out of the 183 economies surveyed (World Bank 2010).

This improvement has been favoured, among other things, by the reduced rates of taxation (flat tax of 10%) and customs (exemption for 83% of the industrial products imported into Albania from EU countries), as well as by simplified corporate models that have led to a streamlining of bureaucratic procedures to be granted licences, as it is the case for the “One Stop Shop”, issuing licenses in the energy sector (ICE 2009).

And again, by lower costs both of the land, allowing foreign investors to purchase at the symbolic price of 1 Euro (ICE 2009), and of the machinery (due to the VAT exemption for imports of machinery and equipment) as well as by providing incentives and preferential financing for
investments, in the country, amounting to 10 million Euros.\textsuperscript{10}

The main benefits of the reforms having an impact on the development of the economy in the country were as follows: the creation of new businesses in a shorter time, greater productivity of the existing ones as well as of the employees within the companies, increased employment, increased movement of labour and capital, increased use of credit, greater protection of minority shareholders, lower internal revenues and visibility of corporate shadow income.

At this point, the aim of the present work was to determine whether this regulative change would affect business strategies. The answer is positive, since the most widely used mode of internationalization seems to be that of direct FDI, as compared to direct or indirect exports, which rose from 158 million Euros in 2003 to 653 million Euros in 2008 and grew further in the first six months of 2009 up to 436 million Euros, as much as 90% more than the first six months of 2008.

More generally, the reasons why entrepreneurs did opt for FDI are the following: the opportunity to have access to export markets reducing either costs of transport or communication time (market seekers businesses), the acquisition of inputs (i.e. labour) at a lower cost than those available in the Internal Market (resource seekers), ease of access to information and strategic knowledge to innovate products and processes (strategic seekers), or the opportunity to centralize dispersed activities in terms of space, in the presence of economies of scale and of scope (efficiency seekers).

In addition, according to the research carried out, the investment preferred by SMEs, which account for 99% of all enterprises, is the greenfield one, considered as less risky than acquisition and driving firms to prefer a global strategic approach rather than a multi-domestic one.

The last point of the research was meant to analyze whether the evolution of the business climate in Albania had weakened or strengthened the position of Italy as the main investor in the country.

In this case as well, the answer is positive, considering that foreign trade with Albania reached its maximum value of 34%, in 2008, amounting to 1,510.63 million Euros.

However, at present, the Albanian entrepreneurial scenario, after the privatization of the major companies of the country relating to such sectors as electricity, telephone, etc., is marked by the creation of Albanian groups that, joined together, are intended to counter the entry of foreign firms. The high local entrepreneurial dynamism is being mainly addressed to the high-technology sectors (telecommunications, electricity, computers, etc.), such sectors in which Italy is not historically in the forefront.

However, in order to keep the leadership as the main investor in the country, Italian entrepreneurs are increasingly considering the possibility of creating equity joint ventures with local entrepreneurs in order to ensure better prospects for investment and to enter these areas in constant development, in order to bring significant opportunities for competitive advantage.

In a market under constant evolution, the strategies of Italian SMEs, without neglecting the traditional sectors (clothing, food), will have to focus on those areas developing faster such as energy, the

\textsuperscript{10} The European Investment Bank (EIB) will grant a prime rate credit for SMEs in Albania, which will be allocated by the Tirana Bank, accounting for 10 million Euros. For further information see: ICE, (2009). The European Investment Bank (EIB) Will Grant a Credit Amounting to 10 Million Euros for Albanian SMEs.

environment, telecommunications, tourism, and locate their businesses outside the Tirana-Durres axis, accounting for 50% of the companies in the country, to serve almost entirely unexplored areas, especially in the North. In particular, as regards the above-mentioned energy sector, renewable sources should be favoured by the enterprises operating in this area, as it is the case for the two outstanding Business Groups, namely Marseglia (ICE 2009) and Moncada (Altamura 2009), that are building large wind farms in the country. From the scenario shown, it can be assumed that the winning strategy for start-up companies, in the future, will be to entry first into these highly technological sectors showing as well a high potential of growth,\(^{11}\) by using, for their huge initial investment, not only conventional financing, but also the venture capital (Venture Capitalists and Business Angels in particular) whose existence will soon become visible by the new Law on Collective Investment that has just been passed (Scalera and Uruçi 2011). As for the local government, what is expected for the near future, is to continue the process of reforms, which has recently seen the introduction of electronic registration for new businesses and the reduction in the time needed for customs procedures through the introduction of scanners (World Bank 2009).

However, in order to improve the economic freedom of the country, some complex issues should be taken into consideration such as: the high degree of uncertainty both over land ownership and the certificates granting it,\(^{13}\) corruption of some officials, compliance with international accounting standards IAS/IFRS,\(^{14}\) the delay in VAT refund, the containment of polluting emissions. Lack of convenient solutions for these crucial issues may lead to a slowdown in the adjustment of the legal, administrative and institutional systems to western standards of development, which are essential to be reached in view of a forthcoming entry into the EU.

References

\(^{11}\) On this subject, the EU will favour Albanian SME technological investment with a financed project allocating 2,2 Million Euros. See: ICE (2010). 2,2 Million Euros from the EU for SME Technological Modernization. http://mefite.ice.it/CENWeb/ICE/News/ ICENews.aspx?cod=15952&Paese=70&idPaese=70 .

\(^{13}\) There are different problems to be solved despite passing the Law of July 29 2004 on “restitution and compensation of property”.

\(^{14}\) Acronym for International Accounting Standards and International Financial Reporting Standards.


