

## PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN ALBANIA

### (FOCUS AREA - GJIROKASTRA)

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#### ABSTRACT

Based on European Union (EU) level studies, micro, small and medium enterprises play a crucial role in economy. They are a major source of entrepreneurial skills, innovation and employment opportunities. Given their importance and weight in Europe and in the country, the study of SMEs would be of value.

The main scope of this paper is to determine the progress and performance of SMEs in the region of Gjirokastra, based on results of financial reports.

Using the data of financial statements and reports of 50 businesses in Gjirokastra region, this study tries to reveals that business growth is directly related with the financial structure of SMEs. The processing and analysis of data in this study is made by SPSS version 21 software.

Such analysis of data of will help us reach in any important conclusion regarding the growth of Small and Medium Enterprises in Gjirokastra region.

**Keywords:** *growth of SMEs, SMEs financial analysis, financial reports, trends of SMEs*

**JEL Classification:** *C58, F36, P42*

#### 1. Introduction

– *Scope of the paper*

The main purpose of this study is to determine the progress and performance of SMEs in the region of Gjirokastra, based on results obtained from financial reports.

– *Objectives of the study*

- Referring to data processing and the results of the three financial reports for the five years taken in focus we aim to analyze, describe, or compare the trend of SMEs in the region of Gjirokastra.

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- What changes should be made by business executives to optimize the financial result in the future.

– *Methodology and data*

For the realization of this paper, a particular attention has been given to the used methodology. Only by relying on a safe basis and clear orientation in the stages of conceptualization, methodological processing, a very good empirical work was achieved.

Literature Selection - Literature selection is one of the primary and most important steps, as it consists in identifying and then reviewing the existing literature in relation to the object of the study.

Selection and description of observations - for the realization of this study, the empirical phase relied on the collection and processing of data from the financial statements of 50 businesses in the region of Gjirokastra. Data processing and their analysis in this study were implemented through SPSS program, version 21.

## 2. Review of the Literature for the Performance of SMEs

To measure the performance of SMEs, we need to identify the elements that contribute to it, which means analyzing a set of indicators, such as *profitability and growth*. So, in other words we have to look at the profitability and growth of an enterprise to see if there is a good, bad or poor performance. But to determine growth or profitability we need to analyze and measure them separately, which leads to the emergence of other issues. First, to measure the profitability, it is necessary to know what profitability is measured with. The same applies to growth (Foreman-Peck et al, 2006).

The modern accounting framework dates back to the middle ages and since that time the performance evaluation is largely based on financial criteria (Bruns, 1998)<sup>4</sup>. The literature of business and enterprises suggests that there are many factors that determine the success and growth of an enterprise (such as Storey, 1994, Watson et al, 1998, Perren, 1999, Thompson and Gray, 1999)<sup>5</sup>. There are also major differences in the performance of small businesses that survive which points out that the small business sector cannot be considered as a homogeneous group (Storey, 1994).

The literature that studies the barriers of business growth suggests a different perspective to answer the issue of business growth (Storey, 1994). This perspective suggests that some small businesses want to grow, but are hampered by a series of "obstacles" or otherwise called barriers. The success or failure of a new business often depends on whether it overcomes a number of potential hurdles, such as providing financial support, adequate guidance and training (Fielden et al, 2000).

The two widely popular models in the field of finances, those of Baumol and Tobin (1952 and 1956) and Miller, Orr (1966), presented in monetary theory are consistent with the theory of enterprise value. It is important to specify that both theoretical approaches refer to the demand for money of the enterprise at any time and especially liquidity in a narrower sense<sup>6</sup>. Maintaining a high level of liquidity decreases the probability of financial instability.

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<sup>4</sup> Bruns (1998), pg. 14-17

<sup>5</sup> Cited in Tongue, 2001, Part 2, pg. 14

<sup>6</sup> Baumol and Tobin 1952 and 1956, Miller and Orr, 1966

Money management is the most often cited obstacle by those who start a new business (Fielden et al., 2000; Bevan et al, 1987)<sup>7</sup>. According to the Trade-off model, firms determine their optimal level of money retention by comparing marginal costs and marginal benefits coming from cash holdings. Benefits include the reduction of the financial risk, compliance with the policy of optimal investment even when financial constraints are met, and its contribution to minimize costs, raising external funds, or liquidating existing assets<sup>8</sup>.

Maintaining a high level of liquidity decreases the probability of financial instability. The lack of liquidity availability, in most cases, for many firms, may represent a considerable cost. Two fundamental situations of lack of liquidity are confirmed under these conditions:

- *Lack of liquidity*, in the sense of the inability to fulfil deferred payment obligations, usually associated with a situation of excessive debt, or totally blocked real estate assets and capital.
- *Insufficiency of liquidity* or lack of funds for purposes considered as essential to the normal functioning of the firm's activity or its development policies. This is not about an immediate risk of insolvency, but can actually slow down the growth of society in the area and the foreseen programs for its development.

Small and medium-sized enterprises receive financial capital mainly from borrowed resources. The acquired capital is *short term; medium term* or *long term*.<sup>9</sup> Ozkan and Ozkan (2004) argue that building relationships with financial institutions improves the ability of businesses to access external financing.

### 3. Empirical analysis of SME financial trends

For this study the financial statements of 50 small and medium-sized businesses operating in the Gjirokastra region were analyzed. Data processing and their analysis in this study were implemented through SPSS program version 21.

**Table 3.1** Analysis of reports in 5 years

Year	2011	2012	2013	2014	2015
<b>Current Ratio</b> <sup>10</sup>	2.33	2.56	1.22	1.39	1.57
<b>Quick Ratio</b> <sup>11</sup>	1.23	0.93	0.43	0.55	0.59
<b>Cash Ratio</b> <sup>12</sup>	1.04	0.44	0.15	0.24	0.86

**Source:** *Data Calculation.*

Financial analysis is an important tool that the financial manager uses in making decisions related to his business. Depending on the interests of the entity conducting the analysis (Business, lender, investor) there are different types of analysis.

<sup>7</sup> Cited in Tongue, 2001, Part 2, pg. 20.

<sup>8</sup> Ferreira and Vilela, 2004

<sup>9</sup> Marian Gal, 2007, pg. 40

<sup>10</sup> **Current Ratio** = Total of Current Assets / Total of Current Liabilities

<sup>11</sup> **Quick Ratio** = Total of Liquid Assets / Total of Current Liabilities

<sup>12</sup> **Cash Ratio** = Total of Cash and Cash Equivalentents / Total of Current Liabilities

What these analyzes have in common is the implementation of various analytical tools and techniques by which data from financial reporting are converted into relevant useful information for management, and serve as a basis for the implementation of horizontal analysis, that enable us to monitor changes with over the time.

Through horizontal analysis, the tendency of dynamic changes in the core positions of the financial statements is maintained. As a key variable in the horizontal analysis is time, since the comparisons of the elements in the financial statements, expressed in the monetary units, between two or more periods we must have a minimum of two years data.

Based on the observations obtained in the study we come to the conclusions and interpretations of the maximum and minimum values or even the average of the descriptive estimates<sup>13</sup>. The analytical results processed through SPSS program version 21 are given in Table 3.2.

**Tabela 3.2** Descriptive Statistics<sup>14</sup>

Descriptive Statistics						
	Minimum	Maximum	Mean		Std. Deviation	Variance
	Statistic	Statistic	Statistic	Std. Error	Statistic	Statistic
<b>Current Ratio</b>	1.22	2.56	1.8140	.26598	.59475	.354
<b>Quick Ratio</b>	.43	1.23	.7460	.14675	.32815	.108
<b>Cash Ratio</b>	.15	1.04	.5460	.17383	.38869	.151

**Source:** *Data Calculation.*

Based on the average values of 50 small and medium-sized businesses surveyed, and three core reports, we can interpret the trend of SMEs for each year or the comparison from year to year. Referring to the results of Graph 3.1 and looking at the trend of SMEs for the five years that we have had in our focus, together with the three parameters, we come to some important conclusions.

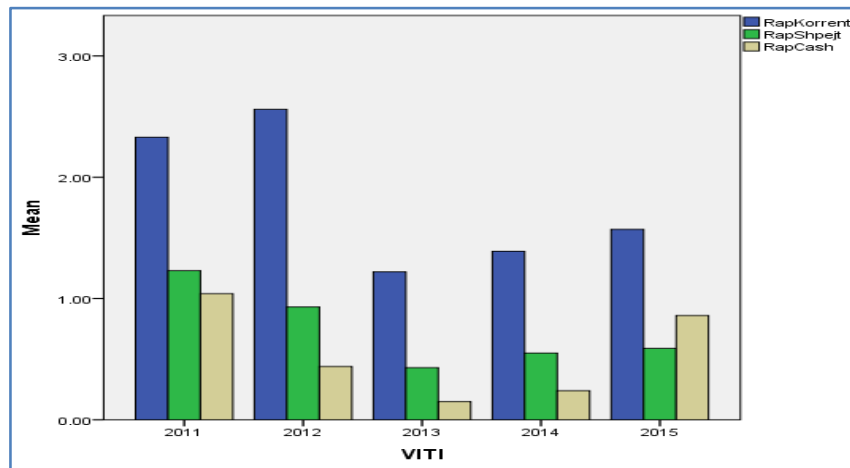
An important conclusion that appears clearly in Graph 3.1, if we analyze the three reports together, is the increase of all three parameters in 2011 and the reduction of the three parameters in 2013.

If we analyze the Cash Ratio we see that according to this report the trend has been declining from 2011-2013 and then increasing from 2013-2015.

Based on the results of Graph 3.1, there is an increase of the Current Ratio in 2012 and a fall in 2013.

<sup>13</sup> Definition of empirical analysis is the small number of observations.

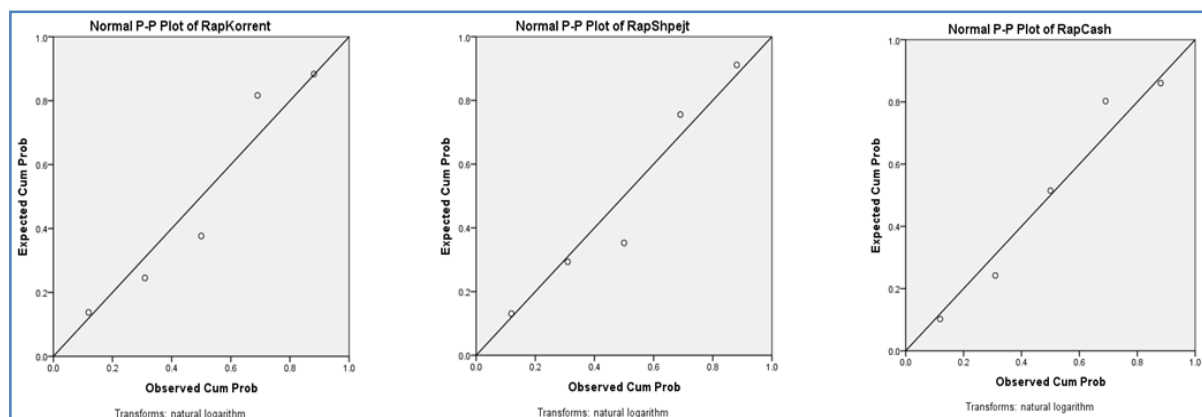
<sup>14</sup> The data have been processed with SPSS program-version 21.



**Graph 3.1** Trend of SMEs in five years

**Source:** Data Calculation.

The three graphs shown in Figure 3.1 are SPSS outputs regarding the normal tendency and probability of the three variables, Current Ratio, Quick Ratio, and Cash Ratio.



**Figure 3.1** SPSS outputs regarding the normal tendency and probability

**Source:** Data Calculation

From the results of Figure 3.1 it is noted that the first two variables, the Current Ratio and the Quick Ratio have the same tendencies but with different values. This result is obvious in the concentration of surveys compared to the line. While the third survey has a more independent focus from the first two, especially at the middle value.

#### 4. Conclusions

An important conclusion that is clearly shown in Graph 3.1, if we analyze the three reports together is the increase of all three parameters in 2011 and the reduction of the three parameters in 2013.

If we analyze the Cash Ratio we see that the trend according to this report has been falling from 2011-2013 and then rising from 2013-2015. Based on the results of Graph 3.1, there is an increase in the 2012 Current Ratio and a fall in 2013.

In meeting the goals and objectives set out at the beginning of this paper, an important conclusion for business leaders in the region of Gjirokastra is that by referring to the results of the five-year study they should take care of the re-concept of their ventures by creating an ambitious environment for increasing the value of their businesses in the future.

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