

DEVELOPING A SUSTAINABLE ECONOMY THROUGH ENTREPRENEURSHIP: THE CASE OF ALBANIA

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Abstract

Research indicates that access to larger markets, curtailing corruption, and creating an entrepreneurial culture are important ingredients for a successful transformation from a centrally planned economy to a market economy. This paper argues that among those three factors, creating a business culture and cultivating entrepreneurial skills are the most important factors in the case of Albania. Albania's transition during the last two decades is often used as a microcosm to investigate the transformation process toward a market economy. The creation of an entrepreneurial economy can foster economic development, systematically fight corruption, and allow Albania to economically join the rest of Europe. A framework modeling conditions necessary for fostering entrepreneurship in Albania is examined, and several recommendations are offered. There are many lessons that other small economies in transition can learn from Albania's experience.

JEL Classification: O1, P2

Key words: Economic Development, Socialist Systems and Transitional Economies

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1. Introduction

Over two decades have passed since the demise of communism in Central and Eastern Europe (CEE). Considerable attention has been paid in the popular press to the lessons learned from these countries as they made their transition toward a market economy. As a result of this paradigm shift, the economies of the CEE countries have made significant progress and the wellbeing of their citizens has increased substantially. In 2010, the Gallup Organization conducted a world-wide survey and ranked 155 countries according to the wellbeing of their citizens (Gallup, 2010). Table 1 represents an extraction of only the CEE countries from this survey, and compares them along the major indicators of wellbeing with the rest of the countries in the world.

Table 1. Summary of the Wellbeing Measures for the CEE Countries

Country	% Thriving	% Struggling	% Suffering	Daily Experience	Rank
Average (CEE)	21.33	58.86	19.62	6.48	95.62
Average (World)	25.61	62.33	12.05	7.07	78.00
Albania	13.00	67.00	19.00	5.60	142.00
T-Test (CEE vs. World)	0.306	0.295	0.000	0.000	NA

Source: For a detailed ranking of each CEE country see Appendix A

As shown above, CEE countries have been able to catch up to the rest of the world during the last 20 years. Their overall rank (78.9), percentage of people thriving (21.33, $p=0.306$), and percentage of people struggling (59.05, $p=0.323$) are almost equal (not significantly different) from the rest of the world. There are still two measures from the CEE countries that are significantly worse than those of the world countries: percentage of people still suffering (19.62, $p=0.00021$) and daily experience (6.48, $p=0.00005$). The last measure, the daily experience, indicates the wellbeing averages on a daily basis and is scored dichotomously (0-10 scoring with higher scores representing better days). This measure includes: feeling well-rested, smiling and laughter, being treated with respect, enjoyment, sadness, learning and interest, physical pain, worry, stress, and anger.

As is indicated in Table 1, Albania scores well below the world averages in all measures of wellbeing and scores below CEE countries in all categories. In spite of the current state, however, Albanians continue to be resilient and hopeful. A recent

account notes that, with the exception of Kosovars and younger Albanians (The Economist, 2012, June 19), most people in the Balkans feel relatively miserable.

While the majority of CEE countries have developed their economies and increased the wellbeing of their citizens, Albania appears to be an outlier relative to their progress. As noted in Table 1, Albania's overall rank is 107. Bulgaria is the only CEE country ranked below Albania. The percentage of people thriving in Albania is only 13, significantly lower than the average of CEE countries (21.33), and the percentage of people struggling in Albania is 68, below the CEE average (59.05). The percentage of people suffering in Albania is 19, almost equal (not significantly different) from the rest of the CEE countries. The most troubling measure is daily experience. Albania's overall score is 5.6, which places Albania in the bottom three countries in the world, just above Iraq and Togo. The current level of wellbeing in Albania shows, according to Gallup researchers, that most Albanians feel pretty miserable, with the exception of Kosovars and younger Albanians.

While more than 20 years of transformation has allowed many CEE countries to catch up with the rest of the world and gradually begin joining the European Union, Albania is still struggling to raise the wellbeing of its citizens. Are there lessons to be learned from the Albanian experience of transition? What are some of the pitfalls that other transitioning economies should avoid as they gradually move from monarchies, autocracies, and communist regimes toward more open societies and free market economies? This research attempts to answer these questions.

2. Albania's Struggle toward Economic Progress

Three conditions impact the economic development in any given country: access to large free markets, a government generally free of corruption, and a business culture oriented toward entrepreneurship.

2.1 Access to Large Markets

For relatively small countries, such as Albania, lack of access to the large free-market is a barrier for entrepreneurs who wish to create goods and services and sell them for profit. Many small countries often still take advantage of large markets by joining trade agreements (NAFTA, AFTA, APTA, and CEFTA). In the case of Albania, joining the European Union would be an ideal step to removing economic barriers to accessing a larger market. This has proven to be a difficult step for the

Albanians, however, given the level of the country's economic development, lack of infrastructure and bureaucratic institutions (Karameta, 2010).

2.2 Corruption

An ongoing problem facing the Albanian transformation is the high level of corruption and bribery. Based on the authors' own observations, the majority of the public believes that corruption in Albania is "widespread" and "somewhat common" and many Albanians admit to having given bribes to obtain public services. Corruption among government officials and state-owned enterprise managers has been a major barrier to Albania's integration with the European Union. On the other hand, this metastatic disease, that started among central and local government officials, is rapidly spreading toward state and private enterprises, causing sluggish organizational performance, lack of transparency, and unfair distribution of results (Karameta, 2010).

2.3 Entrepreneurial Economy

Entrepreneurship has been viewed and cited by researchers as an important contributor to a nation's industrial growth, a significant job creation force, and the engine of a nation's overall economic development. Among land, labor, capital, entrepreneurship, and knowledge, entrepreneurship and knowledge are identified as the two most critical factors in the economic development of any country (Kindleberger, 1965; Lewis, 1970). Especially in the case of economies in transition, the role of entrepreneurial ventures, mostly in the form of small and medium-sized enterprises, becomes increasingly vital. Such enterprises have the ability to respond to systemic shocks more rapidly and have the potential to generate jobs and income at a time when large state-owned firms are undergoing a rapid decline (Hashi & Krasniqi, 2011).

3. Background of Albania: A Brief History

Located in the heart of the Mediterranean, on the Adriatic and Ionian Seas, Albania is a very small but beautiful country, with a varied climate and topography. A country of about three million citizens, Albania has an area of only 11,000 square miles. It is bordered by Montenegro to the north, Kosovo in the northeast, Macedonia to the west, and Greece to the south. Predominantly a mountainous country, Albania has a wealth of natural resources, including petroleum, natural gas, coal,

bauxite, chromite, copper, iron ore, nickel, salt, timber, hydropower (The World Factbook, 2014).

Albanians are descendants of ancient Illyrians, who are believed to have evolved directly from the Stone Age. Records indicate that Illyrians were sociable and hospitable people, much like Albanians today. During the middle ages, commerce and economy flourished in Albania. During that period many Albanian merchants had agencies in other countries (Biberaj, 2013).

Albania fell under the rule of the Ottoman Turks in 1388. Their subjugation lasted for five centuries, with a brief period (1443-1268) when Gjergj Kastrioti (Skanderbeg), an Albanian military genius, rallied the Albanians and drove out the Turks for 25 years. Skanderbeg is the Albanian national hero and his statue stands in the main square in Tirana, Albania's capital. Turkish dominance hampered Albania's growth and trade exchanges with Western Europe. The Ottoman Empire offered tax incentives and economic assistance to Albanians who would convert to Islamism. Many Albanians refused to pay taxes to the Ottomans and refused to surrender their arms or serve in the army. "The religion of Albanians is Albanianism!" This was the rallying cry of the Albanian League, which was formed in 1878 to unite the country, develop the native language, literature, and education, and adopt a new alphabet. Albania proclaimed its independence in 1912.

During World War II, Albania was invaded by Italian forces in 1939 and by German forces from 1943 to November 1944. Albania was one of the most devastated countries in Europe during the war: 60,000 houses were destroyed and about 10% of the population was left homeless (Jacques, 1995). After its liberation, Albania became part of the communist block and Albanians lived for almost five decades under an oppressive regime that did not believe in freedom of expression or thought. Albanians lived in isolation from the Western world. Military bunkers that were constructed during this time still exist today, scattered throughout the country. New hope for the Albanians came in the early 1990s, when new elections and a parliamentary system replaced the communist regime. The new regime promised radical economic and social reforms in the country.

4. Background of Albania: Transition toward Market Economy

The Albanian transition toward a market economy has gone through two distinct phases: horizontal expansion and consolidation.

4.1 Phase 1: 1990-1997: Horizontal Expansion

During this preliminary phase, inexperienced Albanian entrepreneurs explored many business ventures, moving mainly horizontally across industries to find the easiest opportunity for making a profit. The first economic reforms in Albania were dictated by necessity, and included privatization of large and inefficient factories built during the previous regime, dismantling of collective state farms, and the law of land. At this time, many more ambitious Albanians migrated to neighboring Italy and Greece. Reports indicated that remittances from Albanians working abroad were estimated to be more than \$450 million a year (Luthans & Riolli, 1997).

Unfortunately, this first stage ended on a sour note for Albanian progress toward a market economy. A combination of failed pyramid schemes, political uncertainty, and lack of democratic experience and culture almost sent the country into a civil war. The Economist pointed out that “Albania will have to be reinvented ...better luck second time” (The Economist, 1997, April 10).

4.2 Phase 2: 1997-Present: Consolidation

The second phase of the transformation has two major characteristics: foreign development investment and consolidation of family-owned Albanian businesses. The construction of the Coca Cola factory in Tirana, Greek and Italian textile and shoe manufacturers, international restaurants and hotels in Tirana, and high-tech oil exploration by Shell are some examples of the foreign investment in the country. The cheap labor in Albania attracted several European labor-intensive manufacturers.

In June 2006, the Albanian government signed the Stabilization and Association Agreement with the European Union, a first step in the EU accession process. In April 2009, Albania became a NATO member country, and at the same time submitted its application for EU membership, both considered major milestones in the country's history. Albanian progress is documented in recent years, with the country noted as undergoing a “little-noticed but remarkable transformation” (The Economist, 2006, October 26).

Albania has been largely spared from the severe fallout of the European financial crisis, since its economy is not heavily integrated into the Euro-Atlantic system. In 2011, GDP was estimated to have reached close to \$13 billion (Global Edge, 2012). Major contributors to GDP, according to 2010 preliminary data, were: the service sector with 57.6%, including trade, hotels, and restaurants, transport, and communication; agriculture with 20.3%; manufacturing with 11.3%; and construc-

tion with 10.7% (Global Edge, 2012). The government estimated growth reached 3% in 2011 and forecast 4.3% growth for 2012 (Global Edge, 2012).

There is one major conclusion to be drawn from the analysis of the recent and not-so-recent history of Albania: in spite of trials and tribulations, successes and failures, occupations and liberations, communism or democracy, planned or market economy, Albanians still remain resilient and hopeful for the future. Such optimism is rooted in business acumen, entrepreneurial skills, and decision-making ability. The entrepreneurial spirit of Albanian is demonstrated throughout history: from Skanderbeg to Mother Teresa. Mother Teresa, the Albanian born nun known for tirelessly working to help the poor, sick, orphaned and dying, is cited as having “all the makings of a successful entrepreneur” (Vuocolo, 2003).

5. Assessing Entrepreneurial Opportunities in Albania

The history of Albanian transition toward a market economy exemplifies a vicious cycle that often occurs in economies in transition: issues often emerge which focus on tackling the problem of corruption, improving governance, and strengthening the legal, judiciary and regulatory environment –nearly always prerequisites for reaching larger markets, growing business organizations, and generally improving the wellbeing of individuals. On the other hand, a developing and suffering economy with a low standard of living is a clear impediment to joining world markets, as these conditions encourage corruption and bribery among government officials. By creating the necessary culture and climate for an entrepreneurial economy, the vicious cycle may be broken and real economic development can occur. This section of the paper investigates the current state of the Albanian entrepreneurial economy, and suggests recommendations that can be used by the Albanian central and local government to promote entrepreneurial growth and to become a catalyst for economic growth.

5.1 Methodology

This research analysis compares the state of entrepreneurship in Albania to that in more developed countries using Graham’s framework of the pillars of an entrepreneurial economy (Graham, 2006). In his work, Graham specifically outlines the factors that allow entrepreneurship to thrive in the U.S. economy, and which can foster entrepreneurship in developing economies.

5.1.1 An entrepreneurial economy is open to immigration

An open immigration policy means the best and brightest from many countries, with new ideas and energy, are allowed to immigrate and put their ideas to work. Areas of entrepreneurial excellence like Silicon Valley in the US are examples of thriving entrepreneurship and innovation; with many of these new startups founded by entrepreneurs who had been in the US for ten years or less. For many of the migrants to the entrepreneurial opportunity in the Silicon Valley, English is their second language.

Albania is one of the most striking cases of outward migration. During the post-communist era, roughly one million Albanians fled the country to neighboring Greece and Italy (Global Edge, 2012). In addition, about 40 percent of the highly skilled workforce, mainly lecturers and researchers, have left the country (Horvat, 2004). In spite of the increase in remittances from year to year, the outward migration of Albania's "elite" has caused a serious threat to promotion of knowledge, entrepreneurial skills, and the quality of higher education.

Highly skilled migrants can become both agents of development and valuable resources for their countries of origin. To stimulate entrepreneurial development, Albanians who left the country may need to be encouraged to return and assume new venture leadership roles. They can apply the entrepreneurial mindset and skills they acquired while working and living abroad to the birth of a job-creating Albanian entrepreneurial economy. There is a natural evolution, where those with an entrepreneurial mindset gravitate to areas of opportunity. As the prospects for entrepreneurship in Albania improve, there could be a migration back home. These entrepreneurially oriented and better trained individuals will be an important catalyst to stimulate and re-grow the economy.

5.1.2 There is an inherent "speed limit" for entrepreneurial development

A country ready for entrepreneurship, according to Graham (2006), is well developed with an adequate power grid, good roads, utilities, infrastructure, transportation options, and communication facilities. The infrastructure is the key to increasing the velocity of the economy and creating an environment that can easily spawn new ventures. An inadequate infrastructure will limit the progress of entrepreneurs with ideas, and it will reduce the attractiveness of the country to those who might come to Albania to seek opportunity. Companies and industries dealing with a more

primitive infrastructure will struggle to develop and grow because the precursors for natural development are limited or nonexistent.

At the beginning of the transition in Albania, the government advocated the “shock therapy” approach to transition. The argument was that such rapid liberalization avoids a painful and costly period when the old planned economy is already not working. Regrettably, ordinary Albanians lamented that they received “all shock and no therapy (Austin, 2006). Irrigation systems, fruit plantations, agriculture farms, and power grids were destroyed or looted in acts of political retribution, only because they were built during the former regime.

Albania has many outward signs of a limited infrastructure for entrepreneurial development, including abandoned facilities and inadequate power, water, and sewer systems. Lack of infrastructure, including an unreliable electricity supply, is among factors deterring foreign investment in Albania (Oxford Analytica, 2010, February 10). The Czech utility ČEZ took over the operation of the Albanian power distribution company in 2009 when it bought a seventy-six percent share in the utility. This alliance has proven to be very problematic, with a poor payment record by users of power and broken promises regarding reliability and investment by ČEZ. Some predict the imminent collapse of the entire electricity system and the eventual departure of ČEZ from the country (Bardsley, 2012, November 14).

During the last 20 years of transition, the Albanian infrastructure has improved consistently but very slowly. There is an acknowledged link between infrastructure provisions and poverty reduction in Albania (Humpries, Guxho & Ishihara, 2010). While progress has been made on major highways and access corridors throughout the country, there still are poorly served secondary and local road networks, which are often impassable in inclement weather. In 2006, the Albanian government established a program to improve a significant proportion of the secondary and local network, and requested the assistance of the World Bank to prepare for and contribute to the financing of such a program (Humpries, Guxho & Ishihara, 2010). However, the current “speed limit” for entrepreneurship development in Albania can be described as “glacial” when compared to that of more developed European countries, and even many of the CEE countries.

Information and communication technologies (ICT) infrastructure plays a vital role in increasing the “speed limit” of economic development. Many CEE countries have made significant progress toward creating the necessary IT infrastructure and have successfully become equal business partners with Western organizations. The IT infrastructure is an area where Albania has moved with satisfactory speed. For

example, currently, 48.1% of the Albanian population has access to the Internet (Internet World Stats, 2012). While this represents a significant achievement, when compared to the rest of the CEE countries, Albania still ranks low. The presence of several telecommunication companies such as Albanian Mobile Communication (AMC) and Vodafone have created a fertile environment for Albanian business organizations and individuals to take advantage of the accessibility of mobile ICT. This is an asset that can be leveraged for Albanian entrepreneurial progress.

5.1.3 Good universities provide good entrepreneurship partners

The highest levels of forward critical thinking exist in universities, which attract the brightest faculty and students to become a resource for nurturing ideas, creating innovation, and developing best business practices via their institutes and various research centers. Research ideas coming out of the best universities set the stage for other colleges and schools to follow and emulate (Graham, 2006). High-quality universities are the key to entrepreneurship. The prerequisite for a business school in a high-quality university is to both allow professional research and curricula to evolve with academic freedom, and to partner with nascent entrepreneurs.

Generally, the Albanian school system is well developed and there is a tradition of sound education. However, during the first decade of the transition, Albanian institutions of higher education were still ill prepared to provide modern business education to future leaders (Lee & Trimi, 2004). While the University of Tirana had skilled professors and qualified students, the curriculum was largely a combination of communism and liberal arts. This narrow perspective on what could be taught needed to be expanded to offer a complete, diversified education.

When Albania started the transition process, there were only a few public and no private universities. Currently, higher education is offered by 13 public universities and over 38 private universities and colleges operating in Albania (Tempus, 2010). This growth is attributed to the new law of higher education, which was approved in 2007 and amended in 2010. Unfortunately, private universities have manifested alarming signs of corruption, which place the future of higher education and the future of Albania in great danger. A recent study (Karameta, 2010) indicates that while “violations of law were found in every private university,” the government did not take any measures and no single license was suspended. Unfortunately, the study named several private universities where students have obtained degrees without spending a single day in the classroom. Unless the university environment in Albania emphasizes quality research and high academic standards, the oppor-

tunity for the entrepreneurial environment in Albania to be bolstered by academia will be missed.

5.1.4 Entrepreneurship works best in a dynamic labor market

In an entrepreneurial economy, work is less identified with employment. In such economies, employees feel free to move among occupations, industries, and companies to seek better opportunities, more pay, or more interesting work (Graham, 2006). During the former communist regime, Albanians personally identified with their jobs and may have worked an entire career in only one occupation. A new entrepreneurial economy requires a different mindset. Individuals must feel free to seek better opportunities through changing jobs and creating new business ventures or building a career by evolving through several job options. Simultaneously, business owners and entrepreneurs must be supported with flexible employment policies and be allowed to release unproductive workers, freely seek better talent, and utilize flexible hiring policies to adjust to their business cycles.

5.1.5 Create an entrepreneur-friendly environment

Graham (2006) also suggests that an entrepreneurial environment offers a simple and non-bureaucratic process of obtaining the right to start a business: fewer regulations, and low fees. Table 2 represents the rank of Albania out of 183 economies in the world regarding major indicators of ease of doing business in the country. Overall, Albania is ranked number 82 in the year 2012 and has dropped five places compared to 2011 (International Finance Corporation & World Bank (2012)). Compared to the previous year, Albania has improved its rank in two main indicators: enforcing contracts and registering property. All other indicators show that the entrepreneurial climate in Albania has declined.

The most troublesome indicators include dealing with construction permits (Albania dropped to the very bottom of the list in 2012), getting electricity in the workplace (also an indicator of infrastructure as discussed earlier), registering property (in spite of the recent improvement), and paying taxes. Earlier studies (Bitzenis & Nito, 2005) considered unfair competition, changes in taxation procedures, lack of financial resources, and problems related to public order as the main obstacles faced by entrepreneurs in Albania.

It is interesting to note that the same study reports that “bureaucracy and corruption do not appear to represent significant barriers to entrepreneurship” (Bitzenis

& Nito, 2005). This reinforces one of the theses of our paper that entrepreneurship and small businesses are the forces most immune to corruption and bureaucracy in the transition economies, and hence the most effective path toward progress in economic development. Any initiatives directed at adding certainty to both the availability and regulation of business licenses, taxation codes, permit regulation, and work related legislation would greatly benefit the new venture culture in Albania. While the increased energy associated with entrepreneurial business can often overcome many obstacles unfriendly to new venture development, anything that enhances the process would have a very positive impact on a newly forming entrepreneurial economy.

Table 2. Doing Business in Albania: Main Indicators

Topic	Rank in 2011	Rank in 2012	Change in Rank
Starting a Business	56	61	-5
Dealing with Construction Permits	176	183	-7
Getting Electricity	154	154	No change
Registering Property	126	118	8
Getting Credit	21	24	-3
Protecting Investors	15	16	-1
Paying Taxes	150	152	-2
Trading Across Borders	76	76	No change
Enforcing Contracts	88	85	3
Resolving Insolvency	62	64	-2

Source: International Finance Corporation & World Bank, 2012

5.1.6 Larger domestic markets create more prospective customers for new ventures

Albania's population of just over three million people represents a small domestic market for trade and commerce. For entrepreneurship to thrive, entrepreneurs will need to serve larger markets, obtain supplies internationally, and export to the world market. This will require Albania to create more trade relationships, including a relationship with the developed countries of Europe, especially its neighbor, Italy. In order to reach those markets, Albania needs to follow the example of neighbors

such as Macedonia and Croatia. Two years ago, these two countries launched intensive advertising campaigns on “prominent networks such as the BBC, Euro Sport, Euro News, and CNN,” concentrating on their natural beauty and cultural and culinary traditions (Balkan Insight, 2010). In addition to its natural beauties and hospitality, Albania is a country of great economic and human resource potential. The country can offer favorable conditions to foreign companies. These advantages include low wages for relatively skilled and talented workers, favorable tax regulations, and a strategic geographic location.

Additionally, Albania needs to promote global strategic alliances between Albanian companies and companies in other geographic markets. By joining forces, each company opens its domestic market to the other, and overall it is a much more efficient way of gaining access to markets that would otherwise require time and resources for market expansion. These alliances could be as simple as a contractual relationship or actual equity partnerships.

5.1.7 Entrepreneurs need some source of funding

Startup capital funding is required to support new business ideas. Most entrepreneurial economies have well-developed banks and business incubators, available loans and grants, angel investors, and venture capital organizations. Similarly, entrepreneurial economies have established rules and procedures for contracts, investments in business structures, legal ways to invest, safeguards, and shareholders. Rules and procedures must also be designed and enforced so investors have confidence to make needed investments. Often, economies in earlier stages of entrepreneurial development must depend almost exclusively on foreign investments. To stimulate the interest of these outside investors, a stable and predictable regulatory environment is a prerequisite, along with a promotional program to make the developing Albanian economy an attractive option.

Albania is a good illustration of Graham’s premise regarding the importance of a well-developed banking system and a solid financial sector. During the first transition years, an extremely underdeveloped financial sector was inherited from the communist regime. The new government did little or nothing to enforce regulations and laws to adjust to the new economy. The inefficiency of financial institutions was one of the main factors leading to the creation and rapid expansion of pyramid schemes, in which many Albanians lost their life savings in 1997.

With the support of the International Monetary Fund, a new set of banking regulations were approved in July 1998. Since then, the financial and banking systems have been expanding rapidly. Today more than 524 banks operate in Albania. Table 3 illustrates the portfolio composition in the banking industry and the relative developments from 2006 to 2010.

Table 3. Banking Industry Development in Recent Years*

Year	2006	2007	2008	2009	2010
Individual Loans (in Billions)	\$1.77	\$2.71	\$3.68	\$4.17	\$4.55
	100%	153%	208%	236%	257%
Retail Loans (in Billions)	\$0.60	\$0.96	\$1.31	\$1.34	\$1.37
	100%	161%	218%	223%	229%
Corporate Loans (in Billions)	\$1.18	\$1.75	\$2.37	\$2.83	\$3.18
	100%	148%	201%	240%	270%
% of Deposits	\$37.66	\$46.4	\$62.04	\$64.8	\$60.1
	100%	123%	165%	172%	160%

Source: (KPMG, 2011)

* Albanian currency is converted to US\$ using the conversion rate 1 lek = \$0.0092773 (as of October 13, 2012)

The data in the table demonstrates a significant increase (two to three times) in the amount of loans the banking sector in Albania has given to individuals, retailers, and corporate organizations. Deposit amounts saw a slight reduction in 2010, which mostly reflects the decline in remittances from immigrants as Greece and other countries in Europe entered financial crisis. However, in spite of the European crisis, banks have continued to support Albanian businesses and individuals. The Albanian financial sector must continue to promote entrepreneurial endeavors, as they can become one of the most important reasons for outside investors to immigrate to Albania.

5.1.8 Being able to freely exchange ideas stimulates creativity and innovation

A culture without the free exchange of ideas will result in an environment unsuitable for entrepreneurship (Graham, 2006). When free thought is forbidden or not highly valued and creativity is discouraged as a way to equalize everyone's position

in the societal hierarchy, the result is a repression of the basic reason that entrepreneurs exist: independent action. Entrepreneurs are moved by their freedom to test new ideas, new technologies and new processes that relate to opportunities they have identified.

The political revolution of the early 1990s in Albania was only the beginning of the transformation process. The legal framework establishing freedom of speech, privatization, land ownership, freedom of movement, and other democratic laws was approved within the first few years of the new parliamentary republic. However, while the legal framework rapidly changed, the establishment of a democratic culture has proven difficult in Albania.

International observers cite examples of media outlets filing libel suits against the prime minister for prejudicial public statements that he allegedly made against them in the Parliament (Bureau of Democracy, Human Rights, and Labor, 2011, April 8). Many journalists complained that their lack of employment contracts frequently hindered their ability to report objectively.

There are many things that collectively create a culture open to new ideas and innovation. Some of them - a strong university system and an objective press - have already been mentioned. It is also critical to have an optimistic forward-looking perspective. It would appear that the Albanians' ability to remain resilient is in part due to their positive attitude. As the new economy leads to even more successful entrepreneurship, it will stimulate even more creative and progressive dialogue.

6. Prospects for Entrepreneurship in Albania

Albania has aptly been labeled a "microcosm, a laboratory if you will, for the transformation from central to market economy" (Luthans & Lee, 1994). Considering the current state of Albania's transition toward a market economy, the Albanian example is at best a work in progress. While there are some inherent problems to overcome, there is still reason to believe that Albania has a chance to overcome its difficulties by establishing a more entrepreneurial environment. Graham's framework of prerequisites for an entrepreneurial economy can be used to formulate both a direction and lessons for Albania, as well as other countries that are now entering the transition stage. Recommendations provided in Table 4 can be viewed as prescriptive for countries such as Armenia, Azerbaijan, Belarus, Bulgaria, Cambodia, Kazakhstan, Kyrgyz Republic, Laos, Macedonia, Moldova, Tajikistan, Turkmenistan, Uzbekistan, and Vietnam that are moving towards a market economy. In addi-

tion, the recommendations can be used by many countries in the Middle East that are currently undergoing wars or political changes that will lead to economic reforms.

Table 4. Recommendations for Economies in Transition

Graham's Ingredient	Recommendations for Economies in Transition
An entrepreneurial economy is open to immigration	Establish repatriation strategies for the diaspora <ul style="list-style-type: none"> • Welcome those with skills who are seeking opportunity • Provide motivations to open new businesses • Offer tax incentives • Establish comparative salaries for expatriates • Stipulate attractive contracts and business incentives
There is an inherent "speed limit" for entrepreneurial development	Protect and develop modern infrastructure <ul style="list-style-type: none"> • Avoid "shock therapy" approach • Provide a local and secondary road system • Stable and reliable utility needs: water, electricity, gas, communication • Emphasize mobile ICT • Ensure that the legal and regulatory environment protects property ownership and the sanctity of contracts
Good universities provide good entrepreneurship partners	Establish meaningful partnership with universities <ul style="list-style-type: none"> • Establish accreditation requirements for universities • Promote partnership with international universities • Endorse programs that respond to market skills • Encourage applied research among faculty • Promote strategic alliances between entrepreneurial business and universities
Entrepreneurship works best in a dynamic labor market	Create a dynamic labor market <ul style="list-style-type: none"> • Introduce fixed term or temporary contracts • Create training and retraining opportunities • Promote ability of organizations to hire and fire • Encourage equal opportunity hiring practices
Create an entrepreneur-friendly environment	Promote entrepreneurship and new ventures <ul style="list-style-type: none"> • Develop business incubators • Stimulate fair competition • Allow entrepreneurial business to harvest success • Reduce institutional barriers for business organizations
Larger domestic markets create more prospective customers for new ventures	Perform a cross country analysis for strategic positioning <ul style="list-style-type: none"> • Identify critical success factors for the transition • Create a national agency for advertisements • Promote tourism or other competitive sources • Sign international trade agreements with other countries

Entrepreneurs need some source of funding	Promote banking and venture capital <ul style="list-style-type: none"> • Encourage pro-growth fiscal policies • Secure saving deposits • Fight corruption and pyramid schemes • Establish foreign exchange markets • Encourage investments by angel and venture capital organizations
Being able to freely exchange ideas stimulates creativity and innovation	Protect human rights <ul style="list-style-type: none"> • Promote democracy and free elections • Promote open innovation and idea exchange • Fight corruption and bribery • Protect freedom of speech, religion, and ethnic rights • Celebrate differences and innovative thinking

7. Conclusions

This paper compared Albania to other CEE countries that have transitioned to a market economy. The evidence shows that while the majority of CEE countries have politically and economically joined the rest of Europe, Albania's transition has failed several times in the past twenty years. In particular, Albania lacks three major factors that promote economic growth: accessing large markets, fighting corruption, and creating a business and entrepreneurial climate. The paper argues that among these three factors, developing a framework to promote an entrepreneurial economy is the most effective approach for breaking out of the vicious circle that very often entraps economies in transition.

A brief study of Albania's rich history indicates the deep entrepreneurial roots inherited by the people of this small country in the Balkans. Entrepreneurial skills are also demonstrated today in Albania, as witnessed by the authors' most recent visit in May 2012. Albanians are resourceful and hard working, both critical factors in positive entrepreneurial outcomes. As such, developing a positive entrepreneurial climate and culture might be the answer to the challenges facing Albania in the transition.

According to Graham's framework, it appears that during the last two decades Albania has made good progress in several areas, such as banking, financial institutions, and major highways. However, several major ingredients of Graham's formula are missing, leading to some practical recommendations. These recommendations serve a twofold purpose. They can be implemented by the Albanian government to move the country toward the entrepreneurial economy that would help achieve the same political and economic progress as that seen in other CEE coun-

tries. These recommendations can be used by other transitional economies that are moving toward a market economy in Europe, Asia, and South America and by other countries in the Middle East that are embracing economic reforms.

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Appendix A. Wellbeing Measures for the CEE Countries

Country	% Thriving	% Struggling	% Suffering	Daily Experience	World Rank
Albania	13	67	19	5.6	142
Bosnia-Herzegovina	20	59	20	6.2	113
Bulgaria	6	58	36	6.5	144
Croatia	26	60	14	6.2	82
Czech Republic	39	51	9	6.6	51
Estonia	17	62	21	6.8	104
Hungary	13	53	34	6.9	105
Kosovo	29	65	6	6.2	68
Latvia	11	64	25	6.5	140
Lithuania	25	57	18	6.2	85
Macedonia	14	54	32	6.8	110
Montenegro	26	58	16	6.2	83
Poland	28	61	10	7.1	57
Romania	21	56	23	6.6	93
Serbia	16	63	21	6.2	125
Slovakia	21	60	19	6.5	94
Slovenia	27	57	16	6.8	72
Belarus	29	59	12	6.5	74
Moldova	25	62	13	6.1	91
Russia	21	57	22	7	79
Ukraine	21	53	26	6.6	96

Source: For a complete ranking of 155 countries in the world see Gallup (2013)