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## Article

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## **Business and management in Albania**

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A relatively limited research has been carried out so far on management issues in Albania, so that the field can be considered as not sufficiently explored. Therefore, undertaking more complex studies and revitalizing the scientific debate is of utmost importance. It can help to generalize the positive experience and successes achieved in the first decade of transition, as well as generate recommendations of practical value, which in their turn can facilitate the process of management becoming the key factor of success.

On the other hand, comparison with other Eastern European countries is a moment of twofold values in both theory and practice. It helps us recognize our achievements as compared to others who are following the same path, though reflecting their own particularities. It also represents a tool for learning from the positive experience, by accelerating the progress and avoiding the occurrence of the same mistakes. To our opinion this is one more reason to “hurry up” with the publication of a series of such papers produced periodically by management experts of the countries in transition. By doing so we can contribute to a better and faster future progress in this both known and unknown path.

### **Issues on Management in Albanian Businesses**

The transformation of our economy into a market one is a long and difficult process. The last decade of XX-th century witnessed numerous successes, but at the same time failures were not rare. Our “struggle” for progress showed, among others, the lack of expertise. This holds also true in the management field. Some may contradict it, since our macroeconomic performance is good and it continued improving further during 1998-2001. But the history of macroeconomic performance and especially its stabilization tell us that even in Hoxha’s time we had a stabilized macroeconomic situation, though the result was a poor economy and an even worse management. Nowadays, we are praised by international organizations (and of course politicians praise themselves particularly during the election campaign) for the macroeconomic stabilization and for macroeconomic indicators such as the economic growth and inflation. But we are still having a poor management performance both in public and

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private sector. Our national economy is also suffering from lack of managerial expertise.

The main concern, at least among the specialists of this area, is the answer to the question: when we'll achieve a reasonable level of required managerial skills and where can we compare ourselves to other Eastern European countries in transition?

Leaving aside other problems, we are already aware that the transformation process of our economy was accompanied with some special features of the new emerging businesses, which have to face various difficulties and problems. Nowadays, as the severity of the market competition is expected to be more emphasized and environment is changing rapidly, the need for increased effectiveness in the businesses' management is becoming more evident. In order to understand and explain the various managerial aspects of Albanian businesses, as well as the problems they are facing, a survey was undertaken. It sees at the management process as a set of four main managerial functions such as: planning, organizing, leading and controlling. It also makes a classification according to areas of management (marketing, finance, operation, human resources etc).

Information used on this purpose was large. Feedback was received from surveys of about 160 businesses. Besides, results from other surveys, various studies, reports and specialized scientific centers and individuals are critically taken into consideration.

In order to discuss and judge about the management features in Albanian Businesses, the questionnaire prepared focused on the following issues: Training of the managers, age, organizational structure of the businesses, workers' participation in the decision-making process, delegation of competencies to dependents, monitoring and controlling, motivation, short term and strategic planning, values, strategies and the management style used.

These questionnaires were distributed to the managers/administrators of businesses of different sizes and activities, in various industrial sectors. The main activities of the enterprises where the questionnaires were distributed were construction, services and the food processing industry.

## **Results from the questionnaires**

In Albania like in other eastern countries, the main businesses are small and medium sized. Within this range micro-businesses are the prevailing ones. The main businesses are concentrated in trade and other services, construction industry, dressmaking, food processing, etc. The entrepreneur, who manages the activities of the firm/company, generally is not educated in economics, management, accounting or finance. In Albania, as the entrepreneurs' class was

not aware of the importance and role of an effective management, only simple elements of management are applied.

The Albanian businessman, together with his/her property right, is generally exercising the main role in management process of his/her business. In other words, there is no clear separation between the *property right and management*. This is linked with large percentage of micro businesses (micro firms), where the owner is performing by himself the management of his/her business. The owners hesitate to delegate the management right of their firm to somebody else. According to our survey, the major part of the businessmen are planning to grow their activity, but even in this case, they still want to keep the main role in the management process. Some of them may agree to delegate some management functions to somebody particularly reliable (i.e. relatives).

Based on questionnaires and other data published by INSTAT (2000), 25 percent of the owners have completed 8-year schools, 28 percent had completed general secondary schools, 31 percent had completed secondary professional schools. Only 15 percent of them had completed higher education.

About 70 percent of the owners/managers interviewed, were 30-39 years old. This figure is nearly the same as in other Eastern European Countries. This age seems to be dominant, because at that time individuals make important decisions for their future. They are keen to achieve their own targets. On the other hand, they are more capable to be adapted with the changing environment.

Thus, the entrepreneur's profile is described more or less, like 30-39 years old individual of secondary school education, with insufficient training and other necessary management skills.

## **Planning**

Planning, and particularly the strategic planning is one of the most important phases of management and at the same time a key factor for the success of the business in general. 72 percent of the businesses interviewed, produced annual development plans. Only 60 percent of the businesses produced budget plans. They were only short-term plans. In these circumstances, rising owners'/managers' knowledge about the principles and the need of an effective planning is indispensable. This will help them to be more oriented to the market.

It is a fact that before '90-ies the strategic planning was unknown. What was inherited by the past was a 5 years-centralized plan. This means that there is no room for comparison e.g. with Slovenia where in 1987/1988 the majority (51.1%) of the medium and large size enterprises used strategic planning for a period longer than 4 years (Pucko, 2001). This negative experience is allergic to our business owners and was an obstacle for their adaptation with the new changes of the overall environment. Despite the fact that Albanian firms didn't

apply any long-term planning, during 1993 they were very successful in the market. This was due to the “thirst” of the market and the very weak competition. It must be emphasized that only 22 percent of the interviewed businesses prepared annual plans for the development of their activities, while 60 percent of them prepared budget plans. Even in those businesses where such a plan was prepared, it has a limited time span.

Regarding the question whether Albanian owners/managers follow their objectives and in what extent they work with written objectives, they stressed as the most important the cost reduction, profit, market share and financial independence. Most of the managers thought that in the coming years their main objectives would be cost reduction (34 percent), looking for new markets (31 percent), increasing the quality of products (29 percent), etc.

Achievement of the objectives requires a written strategy. The term “strategy” seems to be unknown for Albanian businesses. Regarding the development, implementation and control of company’s strategies, the period 1992-1995 is presented by the respondents as “poor”, while as time goes, they evaluate this process as an “average” one. This is because of the growing awareness of managers for the need of long term-planning, although there are a lot of limitations.

The fact that the interviewed declare that the decisions are planned and are known much better than the strategies, sounds interesting. This could be explained by the fact that in the socialist regime the strategies were prepared by the ministries and not by the enterprises themselves.

Comparing the main tasks of 1996 with those of 1999 thought from the owners/managers there could be observed some important changes. There are many firms now that have a better vision for the future, a better-defined strategy, more clear tasks for the personnel etc.

## **Organizing**

This function of management of the Albanian enterprises is still regarded as not important. This is reflected in the inflexible organization structure with a high level of centralization. Delegation of authority and modern organization structures such as matrix or project structures are almost unknown (while profit centers or strategic business units are even not known as new concepts) and as a consequence not applied in business. This is due to the fact that most businesses are very small and the low level of expertise of managers, too.

Based on the results of the questionnaires’, 85 per cent of the businesses interviewed are organized in simple linear structure, with one management level mainly. The most common functions are production, selling, logistics and finance accounting. Even in such functions, we have to take into the consideration the fact that it is very difficult to say that the employees who deal

with such functions are all qualified. On the other hand, in the micro firms all these duties are carried out mostly by one person - the owner/manager.

According to another study done by INSTAT (June, 2000), the results were as follows:

1. In the enterprises, with status of natural person, in more than 90 per cent of them the accounting function was done by the owners.
2. In the group of enterprises with the status of legal person, in about 48 per cent of the cases the accounting function was done by specialists not employed in the firms, 30 per cent of specialists employed by the firm and in 22 per cent of them the accounting function was carried out by the owners of the firms, or other family members or relatives.

As it might be seen, in both categories, there are a high percentage of enterprises on which other persons carry out the accounting function, generally without necessary skills. Also, the fact that marketing function is added recently in middle and large enterprises is evident.

### **Leading**

Questions related to the authority delegation, were answered as follows: 75 per cent of the owners do not allow their dependents to take by themselves the decisions related to the functions they are working. In about 80 per cent of the cases, it is the entrepreneur who participates in the company's decisions. An autarchic style of management is evident in Albanian businesses, where the owner/manager wants to control everything in details, even for small activities performed by his dependents. This feature is an obstacle for the top-level managers (in the firms with a well-established managerial hierarchy), who in this way are not able to deal with the general aspects of management. This will also result in inefficient decisions. A single person couldn't be able to be expert in everything.

The question: "Is there any kind of consultation taking place in the process of decision-making between managers and their dependents?" Nearly 60 per cent of the interviewed answered negatively. Thirty percent said "a little" and ten percent said, "there is sufficient consultation". While the question asked regarding the decisions related to the company policy, whether they were taken only by the managers/owners, 90 percent answered "all decisions". This information shows that the employees of the low-level management are not involved in the decision-making process. This is justified by the autocratic style of the Albanian businesses. In this way, employees do not feel as part of the enterprise, which in reality reduces the level of motivation and performance.

Despite this mentality and situation, the information collected from questionnaires, shows that nowadays tendency with the decision-making process is decentralization. This was confirmed by about 80 percent of



interviewed persons. Questions directed to them about how they explain this kind of evolution, 90 per cent answered “Decentralization of decision-making in their own businesses is linked with the growing process of their enterprises, as well as with the rate of increase in the number of employees and activities.

Also, even in the presence of deficiencies in the organizational structuring and the actual level of centralization of decision-making, the interviewed managers think that decision-making as a process has evolved. Data shows that decision-making now is faster. Still, fast decision-making does not bring the right decision. On the other hand, slow decisions can be a catastrophic alternative in a rapidly changing environment.

It can be concluded that the tendency of Albanian managers is actually towards the systematic and quick decisions. If that is true, they will not complain of managers’ being incapable to act wisely.

The above aspects are also linked with the organizational culture of a company/firm. This should not be seen separately from the culture and environment traditions of employees. Basically, Albanian society can be classified as patriarchal family based. It is such a mentality that influences the relations within an organization/company.

Asked about the style and the methods used for managing their businesses, the businessmen were answered as follows:

More than 30 percent of businesses think that they have a spirit of loyalty in their businesses. This was more obvious in the small businesses, especially when the employees were members of their family or their relatives, as well as when the employees have been with that business for a long period of time. About 40 percent of business owners used the top-down delegation of authority, while the rest relayed on the strong supervision of their dependents.

It is well known that involvement of managers to the company goals is closely related with their motivation and as a result, a high motivation will lead to a common interest of meeting the goals of the individuals and the organization itself. The interviewed stated that the managers’ commitment for their companies was in a satisfied level during 1992–1995. This was an unexpected result, taking into account that during socialist regime it was very poor. Liberalization of salaries might be one of the factors improving Albanians commitment.

Albanians managers believe that the level of commitment will be enhanced as time goes by. This will be due to growing of work interest and salaries. The enhancing of manager’s commitment will enhance also the *motivation*. They hope that the level of motivation will be enhanced during the next years. One of the reasons to support such a statement is the enhancing of competition which has lead the Albanian businesses to invest on enhancing the motivation of their managers, otherwise Albanian businesses will be threaten of loosing their best

managers. The second factor is enhancing of awareness relating to the importance of human resources. Finally Albanian managers think that motivation of managers will be better during 2000 – 2005. One thing to be mentioned is the fact that generally the main criteria used for employee's motivation, the owners mentioned the motivation through bonuses and salary differentiation. All the business owners interviewed expressed the opinion that under the present conditions, money is the best motivation.

It is interesting that the level of motivation is being enhancing more in ex-state companies than in private ones. A rapid transformation does not mean that the level of motivation of state companies or former state-run companies is higher than private ones.

Relating to figures gathered by questionnaires do not exist serious problems on commitment level of managers dealing with company tasks. It is a good chance for the Albanian businesses to use effectively all country human resources.

### **Controlling**

Control, as one of the functions of management, involves the process of measuring, evaluation and comparisons of the results achieved with those planned. The main aim of control is to take the necessary corrective actions in order to improve the performance.

In small Albanian Businesses, the owner/manager generally does the controlling function. In 80 per cent of firms/companies interviewed, the owners/managers said that the control procedures exist, but these procedures in 62 per cent of the cases are followed by qualified people, in 48 per cent of the cases are followed by the owner or other persons selected by him/her. In 60 per cent of the cases the aim of control was to prevent rejects and in 40 per of the cases to eliminate product rejections.

The way the control is done, as well as the assessment of results has an impact on the motivation of the dependents. According to 97 per cent of the cases assessment of bad results was performed immediately after the control, while the assessment of good results was performed later. Based on the study results, it is evident that immediate positive performance evaluation is more effective and provides more motivation. On the contrary, if the evaluation for a bad work is made immediately, this will have a negative motivation effect on the workers/dependents.

All the firms interviewed exercise financial control on expenses, though its degree and type varies between different businesses. The large and experienced businesses apply more specialized control, which is performed by professionals, though quite often control is done by owners themselves.



## Marketing

Marketing researching might be the least well-known and applicable method used (in Albania) in order to manage the small business successfully. Most of the managers don't believe that the information provided by the market research or market survey is worthier than the proper expenditures on such issue. This might be due to their lack of knowledge how to gather and process the research figures. All those businesses that provide what market needs and differentiate their products and services are likeable to resist and develop.

According to the questionnaire results, only 18% of small business (29) pretended to apply a market research. 14 out of those businesses declare to conduct a formal written research. 15 out of 29 firms declared to conduct such research with non-employees of those firms. The others declared to conduct such research with their employees. It is understandable that this was due to the educational level of managers/owners.

The managers of small businesses often are in charge to draft only the questionnaires without previously identifying why and to whom the results will be serving.

Even though small businesses pretending to conduct marketing research have identified four general patterns of marketing searching survey, each of them serving to a certain goal. The consumer survey is more applicable. (60% have conducted during past three years only one consumer research). Competitiveness survey generally was reported as a research conducted on their own efforts. (60% of the businesses that have conducted these researches with their own manpower have performed a research during the last three years). The study on effectiveness of advertising was conducting mainly with external specialists, whereas public surveys were conducted within the business environment.

The small business managers conducting marketing survey were asked if they were satisfied with marketing survey results. According to their figures, 71% have declared that were satisfied and only 29% were not satisfied from such a survey. The interviewed were capable to implement the survey results. Only 6% were declared as non-capable.

The case when the information received by the marketing research counts more than the expenditures on that issue, might be one of the most important questions. Concerning to that question 8% of the interviewed were replying "No" and 84% were replying "Maybe" or "Yes".

Results suggest that most of small businesses do not conduct marketing research. Even though the businesses who pretend to conduct such a survey, most of them use the manpower of the organization. The most applicable survey was that of client observation. Most of the interviewed owner/managers feel

that the information receiving by the survey counts more than expenditures on that survey.

*Table 1. Small business characteristics dealing with marketing research during past three years (1999-2001)*

	<b>The percentage of businesses conducting the survey with their own efforts</b>
<b>Owner/Manager age</b>	
less then 34	41
more then 35	39
<b>Owner/Manager education</b>	
without University Degree	30
with University Degree	43
<b>Number of employees</b>	
less than 5	38
5-25	62
more than 25	

Source: V.Kume & B.Ceku: Review "Economy and transition" Nr 4, 1998. Tirana

According to analyze on managing orientating level towards the market, it is likeable to improve a lot during this decade. Big transformation has proceeded rapidly in state enterprises that in private ones. Approximately half of the state companies directors feel that the orientation toward the market is being improved during 1995-2000, whereas in the mean time, only 10% of private enterprises directors, agreed upon such a figure. The reason of that rapid progress of the enterprises owned by the state was at a very low level since the beginning and as a result it grows up "artificially" the rhythm of their transition. Based on the answers of interviewed managers/owners of businesses it is concluded that the orientation towards the market during 2000 will be more than "good".

It is still difficult to answer the question if the Albanian managers are becoming more orientated toward the market or this might be overvalued. The researches resulted that the knowledge on the market is strongly improved.

### **Financial management**

All the interviewed businesses exercised financial control on expenditures, although its type and degree varies differently according to the types of the businesses. In the large businesses this control was more specialized and was

performed by specialists. In most of the businesses, the owner himself carried out the control.

Financial strategies of the group evidenced the fact that at the very initial phase of the business, they all have experienced difficulties in finding the capital. All owners interviewed said that their aim is to grow their business. The majority of the owners have received loans for the initial phase of the business. This was more typical for those businesses that had existed in the past in the form of the state-owned enterprises. 60 percent of the businesses studied met the criteria for receiving a loan from the banks. 20 percent of the interviewed people has started their business with from emigration. The other 20 percent had used their personal savings/ or money borrowed from their relatives. Asked about the way that they could find the financial means for extending their activity, all the interviewed answered that they will reinvest their profits.

Lack of sufficient financial funds is ranked nearly the top of the restrictions for SMEs development not only in Albania, but in all the region of Eastern and Central Europe countries. This is mainly due to the fact that the economies in transition are characterized by a slight development of capital markets.

One of the main concerns of the interviewed was the contraband or other illegal economic activities. The contrabands' goods have a negative impact on the growth of their business.

### **Human resource management**

It is well-known that more than ever nowadays, human resources are a key factor of success. The progress of a country in the market economic conditions is measured better by the index of *human resource development* (HRD), because it is offering an alternative way in assessing relatively social and economic progress of a given country.

In the Albanian case, it is UNDP that made an effort to calculate the above index in the global HRD report of 1998 through indirect methods. According to their calculation, the index is counted 0.656 and has placed Albania in the 105<sup>th</sup> place amongst 175 countries (Sh. Llaci, 2001).

Discussing in more concrete terms, it has to be emphasized that the first years of transition have indicated the lack of employee qualification. Managers are asking more and more for more trained employees. The business directors indicate that the chances for training will be enhance for two main reasons: enhancing of competition and enhancing of training services in Albanian Market.

It is strange that foreign companies do not foresee any training improvement services by the company, even though it is believable that foreign companies bring advanced training methods. On the contrary the companies operating in the so-called modern industry invest much more in training than the companies

operating in traditional industries. This has to do with the fact that these industries are newly introduced to Albania.

From the study, it comes out that there are deficiencies in the training and trainers knowledge, especially in the former state-run companies. Even though, the companies' managers feel that they need to enhance their managerial abilities. If all of the Albanian business managers will think the same, this will be a good sign for the future of the Albanian economy. Thus, it is worth mentioning that that experience and the training of managers are not enough. In order to complete this framework, the experience of all manpower is need.

Some of the people inquired, admitted that they have been trained in special courses in the areas related to their activity. So far they have lacked time and chances, but they were eager to get trained through short-term courses in areas such as financial management and business management.

As far as the employment criteria of are concerned, the majority of interviewed emphasized that they employ people based on their specialty. As a second criterion, they mentioned experience and education. In two of the businesses, the primary criterion was the age and sex. One of the interviewed answered that, as a primary criterion was the employment of family members and relatives. Despite all these, the employers generally were interested to employ the persons who fit better to the requirements of the job.

The main request of owners towards their employees was the quality work, while the businesses, which have many contacts with clients, are more clients oriented. A less important criterion is the independence in actions and personal growth.

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