

**THE IMPORTANCE OF SMALL AND MEDIUM-SIZED ENTERPRISES (SMEs)
IN ECONOMIES: SWOT ANALYSES OF THE SME SECTOR IN TURKEY AND
ALBANIA**

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ABSTRACT

In developing countries SMEs constitute the main sources of national income and create an important area for entrepreneurship. Also they have great importance in terms of increase employment. Turkey and Albania aims to become a full member of the European Union and aims to strengthen mutual economic and political relations between them. So, Turkey and Albania SMEs have been selected as research subject in this study. In this context, the aim of this study is to make a comparison on Turkish and Albanian SMEs within the framework of the European Union SMEs classification and reveal the importance of the SMEs for national economy.

Keywords: SMEs, SWOT Analysis.

JEL Classification: E00, Z00.

**KÜÇÜK VE ORTA ÖLÇEKLİ İŞLETMELERİN EKONOMİDEKİ ÖNEMİ:
TÜRKİYE VE ARNAVUTLUK KOBİ SEKTÖRÜ GZFT ANALİZİ**

ÖZET

Gelişmekte olan ülkelerde KOBİ'ler milli gelirin temel kaynağını oluşturmanın yanısıra girişimcilik için önemli bir alan yaratması ve istihdamı artırması açısından önem arz etmektedir. Bu çalışmada hem Avrupa Birliği'ne tam üye olmayı hem de karşılıklı ekonomik ve politik ilişkilerini güçlendirmeyi hedeflemeleri sebebiyle Türkiye ve Arnavutluk KOBİ'leri araştırma konusu olarak seçilmiştir. Bu bağlamda çalışmanın amacı, Avrupa Birliği KOBİ sınıflandırmaları çerçevesinde Türkiye ve Arnavutluk KOBİ'lerini karşılaştırarak ülke ekonomilerindeki önemini ortaya çıkarmaktır.

Anahtar Kelimeler: KOBİ, GZFT Analizi.

JEL Sınıflaması: E00, Z00.

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INTRODUCTION

Small and Medium Enterprises (SMEs) play a vital role in the industrial development of any country. The importance of the SME sector is well recognized worldwide due to its significant contribution to gratifying various socio-economic objectives, such as higher growth of employment, output, promotion of exports and fostering entrepreneurship.

Recent empirical studies show that SME's contribute to over 55% of GDP and over 65% of total employment in high-income countries. SME's and informal enterprises, account for over 60% of GDP and over 70% of total employment in low-income countries, while they contribute over 95% of total employment and about 70% of GDP in middle-income countries. In the European Union countries, for example, there are some 25 million small businesses, constituting 99% of all businesses; they employ almost 95 million people, providing 55% of total jobs in the private sector. Important contribution is also on exports and on productivity growth.

Turkey and Albania aims to become a full member of the European Union and aims to strengthen mutual economic and political relations between them. So, Turkey and Albania SMEs have been selected as research subject in this study. Turkey is a candidate country for EU membership following the Helsinki European Council of December 1999. Albania is a potential candidate country for EU accession following the Thessaloniki European Council of June 2003. Both Turkey and Albania, strives to align their legal and institutional arrangements to EU regulations. While Turkey is located in more advanced stages of this process, Albania is located in the initial phase of this process. Although the time factor is important for the membership, country performance is also important. In this context, a comparison is made about Turkey's and Albania's SMEs within the framework of the European Union classifications and is examined SMEs importance in these countries economies.

1. DEFINITION OF SMALL AND MEDIUM-SIZED ENTERPRISES (SMEs)

Institutions working on SMEs case can make several definitions. Limit of SMEs definition generally changes according to economic size of countries. Thus SMEs phrase have economical meaning rather than legal meaning. Most of countries accept that number of employee is a common measurement of SMEs definition. Definition of SMEs and their size criterions is a controversial subject. There are various opinions about SMEs size measurement criterions and their amount (Dinçer, 1994).

According to some institutions number of employee has more importance, for the others enterprises turnover have more importance in SMEs definition.

World Bank's definition of SMEs is that micro scale; less than 50 employee, small scale; 50 employees, medium scale; 50-200 employees.

In European Union, the new definition of SME includes those with fewer than 250 employees (EC, 2003). This group is further disaggregated into micro enterprises (with fewer than 10 employees), small enterprises (with 10-49 employees) and medium sized

enterprises (with 50-249 employees). Micro enterprises would include self-employed people working for themselves with no employees.¹

Eurostat has made re-arrangement on statistics of EU by enterprises scale and Eurostat definition of SMEs is that not employee and 1-9 employees are micro scale, 10-49 employees is small scale, 50-249 employee is medium scale, 250-499 employee is large scale (EC, 2003).

2. ADVANTAGES AND DISADVANTAGES OF SMEs

Small and medium size enterprises have become popular in the world especially since 1960s. Schumacher (1973) denotes the superiorities of SMEs as such:

- SMEs have a competitive structure.
- SMEs are more efficient.
- SMEs keep up with the new demands and new technology easier.
- SMEs' working styles are not monotonous or boring.
- SMEs are more enduring to the economic crisis.
- SMEs have a more successful role in increasing employment and arranging income.

SMEs have been leading enterprises in the industrialization of Western Countries since 1960 (Çarıkçı, 2001). SMEs, observing the market closely, understanding the requirements of customers better and having intimate relations with its employee, have more elasticity than the large ones in terms of manufacturing, marketing and service. As this elasticity enables harmony with the changes in outside in time and on-site, SMEs pass over many troubles lightly with less damage. Right along with these, SMEs may obtain some advantages in some surroundings. SMEs' advantages are (Yılmaz, 2004):

- SMEs provide the strength of element of "balance" income spectrum. This balance gains importance in terms of both social and economic sides. These enterprises are the sources of new ideas and discoveries. They contribute to the industries for providing required elasticity.
- SMEs have the opportunity to make a decision more quickly. Because they work with less expense of management and general operating, they have faster and cheaper production.
- SMEs play an important role in creating private initiatives. Also they enjoy large shares in employment and training. These enterprises are the first establishments in which many qualified workers receive technical training.
- SMEs constitute an effective way to expand the manufacturing and industrialization to the whole country.
- SMEs are of the situation to be the manufacturer of intermediate goods and inputs of large industrial enterprises.
- SMEs may be effective in increasing quality of life providing some opportunities for small investments to use labor force, raw material and financial sources that cannot be used because of social and political reasons.
- SMEs possess a significant role to fulfill the function to reflect small savings and family savings directly to the investments.

¹ Sometimes the term small, medium and micro-sized enterprises (SMMEs) are used rather than SMEs.

In this regard the small firm is too important, too dominant and too much about creating the future business generation for marketing practitioners (Day, 2000:1034). According to the report of European Community, the contribution of SMEs to the economic system are summarized as the following; “these enterprises constitute a required part of commercial and industrial structure because of their numbers and studies about different cases; effects over all sectors having a field of manufacturing, trade and service; contributions to employment and level of welfare” (EC, 2003).

However, SMEs have also some disadvantages². These are lack of general administration, especially the lack of total participation of low level workers to the decisions taken by the owners or partners, not employing specialist and financial consultants in the enterprise, lack of an expert group in financing and lack of department, lack of capital and financial planning, not taking enough support from the banks and other financial corporations, lack of product development, lack of coordination between production and sale, not showing the activities of modern marketing, littleness of business sites and residential areas, risk of bankruptcy and losing its independency, not to be able to provide specialized staff, legislation and bureaucracy, SMEs may be called disadvantageous.

It should be noted that among disadvantages of SMEs exhibit a lower level of profitability than do their larger counterparts. However this lower level of profitability is consistent with at least two of the many roles (Carree and Thurik, 2003) SMEs play in the economy: “the seedbed and turbulence role” (Beesley and Hamilton, 1984) which creates economic growth at the expense of survival rates and profitability of those firms involved in this roles (Fritsch and Mueller, 2008) and interacting with their larger counterparts as a supplier while large firms outsource their less profitable non-core activities (Baumol, 2002).

Table 1. A Comparison of Small and Large Firms (Advantages and Disadvantages)

	Small Firms	Large Firms
Marketing	Ability to react quickly to keep abreast of fast-changing market requirements.	Comprehensive distribution and servicing facilities. High degree of market power with existing products.
Management	Lack of bureaucracy. Dynamic, entrepreneurial managers react quickly to take advantage of new opportunities and are more willing to accept risk.	Professional managers able to control complex organisations and to establish corporate strategies.
Internal Communications	Efficient and informal internal communication networks. Affords a fast response to internal problem-solving: provides ability to recognise rapidly to adapt to change in the external environment.	Internal communications often cumbersome: this can lead to slow reaction to external threats and opportunities.
Qualified Technical Manpower	Frequent lack of suitably qualified technical specialists. Often unable to support a formal R&D effort on an appreciable scale.	Ability to attract highly-skilled technical specialists. Can support the establishment of a large R&D laboratory.

² See also Table 1.

External Communications	Frequent lack of time or resources to identify and use important external sources of scientific and technological expertise.	Ability to “plug in” to external sources of scientific and technological expertise. Can afford library and information services. Can buy crucial technical information and technology.
Finance	Great difficulty in attracting capital, especially risk capital. Innovation can represent a disproportionately large financial risk.	Ability to borrow on capital market. Ability to spread risk over a portfolio of projects. Better able to fund diversification into new technologies and new markets.
Economies of Scale and the Systems Approach	In some areas scale economies of form substantial entry barriers to small firms. Inability to offer integrated product lines or systems.	Ability to gain scale economies in R&D, production and marketing. Ability to offer a range of complementary products.
Growth	Can experience difficulty in acquiring external capital necessary for rapid growth.	Ability to finance expansion of production base. Ability to fund growth via diversification and acquisition.
Patents	Can experience problems in coping with the patent system. Cannot afford time and costs involved in patent litigation.	Ability to employ patent specialists. Can afford to litigate to defend patents against infringement.
Government Regulations	Often cannot cope with complex regulations. Unit costs of compliance for small firms often high.	Ability to fund legal services to cope with complex regulatory requirements. Can spread regulatory costs. Able to fund R&D necessary for compliance.

Source: (Xhepa, 2006).

3. IMPORTANCE OF SMEs IN THE WORLD ECONOMY

Small and Medium Sized Enterprises (SMEs) have always taken significant roles in the world economy. SMEs, which are the driving force of economic growth, have an important effect on the economic activity.

In European Community, every three people out of 25 (12%) in 1985 were free from business. Therefore, a research has been made to achieve an important increase in employment in Europe. The results of the research show that one solution to achieve this rise is Small and Medium Size Enterprise (SMEs). It is noted that SMEs, the significance of which become clearer for resolving employment problem, have gained importance also in Europe after 1970s (Bulmuş, Oktay, Törüner; 1990).

It is seen that SMEs form a major part of total enterprises in the countries in Table 2 in the period between 1945 and 1970, emphasizing large size enterprises, economic growth and rehabilitation activities are implemented in the world. However, in this period, it is understood that SMEs have superior features compared to large size enterprises. In several countries, SMEs' role in creating employment and enabling competitive atmosphere, have gradually increased. In 1970s, the conjuncture on economic crisis has become effective in such a case. On the other hand, after the economies of scale have begun to decrease, SMEs have begun to construct the basis of macro economies' policies in many countries because SMEs have contributed to the usage of sources economically, the employment and income distribution after the depression in 1970. Contrary to the large

enterprises focusing on the manufacturing of products the demand of which have showed high or low income elasticity, are the units affected least by the economic crisis (Yılmaz, 2004). Once the economies of developing and developed countries are analyzed, indicators of SMEs disclose the significance of this sector clearly. Although SMEs show agricultural and structural differences country to country, an invariable fact is that these enterprises have great contribution to the economies of whole world countries.

Table 2. Share of SMEs in Some Countries (%) (2004)

	USA	Germany	Japan	France	England	South-Korea	India	Turkey
SMEs in Total Enterprises (%)	97,2	99,8	99,4	99,9	96	97,8	98,6	99,5
SMEs in Total Employment (%)	50,4	64	81,4	49,4	36	61,9	63,2	61,1
SMEs in Total Investment (%)	38	44	40	45	29,5	35,7	27,8	56,5
SMEs in Total Value Added (%)	36,2	49	52	54	25,1	34,5	50	37,7
SMEs in Total Export (%)	32	31,1	38	23	22,2	20,2	40	8
SMEs in Total Credits (%)	42,7	35	50	48	27,2	46,8	15,3	4

Source: (Yılmaz, 2004).

SMEs constitute the basic source of materials, ideas, process and service that large enterprises cannot do or do not want to do. Because aiming to benefit from the cost advantage of economies of scale, large enterprises implement a policy of manufacturing a product for a long period due to the big investments for the machines, tools, devices and labor force. However, SMEs do not have such problems as maintaining a large scale investment. Because their economies are small and they possess more elastic structure when compared to large enterprises (Efe, 1998).

SMEs remain important not only in developing countries but also in developed and industrialized countries. In these years of 21st century, in developed countries, the policies aiming to increase employment of small enterprises, observed up to now, are postponed and it has been tried to constitute some policies enabling formation and competition of small enterprises making changes in production, sale and management. In developed countries, policies of small enterprises should be to improve alive, livable and dynamic enterprising, not focusing on increasing employment (Sariaslan, 1994). Despite these difficulties, in all countries, there can be made such a generalization that SMEs constitute about 99% of enterprises. Despite the change from one country to another, SMEs constitute 40-80% of employment and 30-70% of gross national product. 5% of the SMEs are of the statute of large enterprises. This data designates a superiority of small enterprises upon large ones. One of SMEs small but important characteristics is that they are in a leading position to improve industries and technologies. SMEs are densely existed within the enterprises implementing innovative studies. By decreasing cost of communication, SMEs technical opportunities will increase and thus, SMEs' achievement in global market will improve. Contribution of SMEs to the employment is also important (Küçükçolak, 1998).

Table 3. Share of SMEs in Global Economy

European Union (EU)	Of the 19.3 million enterprises in the European Union (EU) today, 99% are defined as SMEs and employ some 75 million people. There are only 35,000 enterprises, with more than 250 employees, but 18 million enterprises employ fewer than 10 people - the micro- enterprises. The average European business provides employment for 4 people, including the owner/manager, the average turnover being 500,000 euro.
OECD Countries	Of this group, SMEs represent over 95% of enterprises in most countries and generate over half of private sector employment. Moreover, most OECD governments promote entrepreneurship and develop SMEs with a myriad of policies and programmes because of SME difficulties such as financing, technology and innovation, e-commerce, management and internationalization. For example, in Korea measures include tax breaks and reduced interest loans for starting new businesses in rural areas.
Latin America	After focusing on large investments and wooing multinationals for years, Latin American politicians are beginning to realize that SMEs are the true job creators, as well as important players in technology supply chains. The vast majority (approximately 80-90%) of companies are micro enterprises and the governments have vastly reduced red tape to ensure SMEs needs are attended to swiftly. Among the major regional economies, except of Argentina, while these types of businesses flourished elsewhere in Latin-America, especially in Brazil and Mexico.
Asia	It has been recognised that some of the world's best performing economies, notably Taiwan and Hong Kong, are very heavily based on small enterprises'. 81% of all employment in Japan is in SMEs where the average enterprise employs nine staff as opposed to four in the EU.
South Africa	The share of employment located in the micro, small and medium sectors taken together is high – estimated recently at 60% while the sector generated about 40% of output.

Source: (Adapted from Lukacs, 2005).

Regardless of the level of economic growth, in all countries SMEs are the basis of economic and social order in terms of numerical and job creation capability. In almost all of the countries, SMEs constitute nearly all of the enterprises. According to this, in all countries, SMEs have an active role (KOSGEB, 2000, 1993).

Consequently, today, with the globalization of world markets, developed and developing countries are more aware of the capability and elasticity of SMEs to keep up with the social and economic changes. Thus, they focus on incentive economic measures to increase their competition capability and technological level. In short, in the world, the concept of “Small is Beautiful” is common.

4. A COMPARISON OF SMALL AND MEDIUM-SIZED ENTERPRISES BETWEEN TURKEY AND ALBANIA

Turkey and Albania aims to become a full member of the European Union and aims to strengthen mutual economic and political relations between them. So, Turkey and Albania SMEs have been selected as research subject in this study. In this context, the aim of this study is to make a comparison on Turkish and Albanian SMEs within the framework of the European Union SMEs classification and reveal the importance of the SMEs for national economy.

4.1. Definition of SME: in European Union, Turkey and Albania

Turkey which is undertaking preparation for the membership of European Union should take necessary measures, due to the reasons mentioned above, so that it might approach to the standards of SMEs in Europe Union.

One of the main issues concerns the definition of SMEs. All of the Western Balkan countries (except Bosnia and Herzegovina) and UNMIK/Kosovo apply an EC definition of SMEs.³ Most of the countries adopt the EU employment criterion but use different parameters for turnover and asset classification (OECD, 2007).

Table 4. Definition of Small and Medium Sized Enterprises in European Union, Turkey and Albania

	Criteria of Definition	Micro Enterprises	Small Enterprises	Medium-Sized Enterprises
EU	Headcount: Annual Work Unit (AVU)	< 10	< 50	< 250
	Annual Turnover	≤ € 2 million (previously not defined)	≤ € 10 million (in 1996, € 7 million)	≤ € 50 million (in 1996, € 40 million)
	Annual Balance Sheet Total	≤ € 2 million (previously not defined)	≤ € 10 million (in 1996, € 5 million)	≤ € 43 million (in 1996, € 27 million)
Turkey	Headcount: Annual Work Unit (AVU)	< 10	< 50	< 250
	Annual Turnover	1 million YTL (€ 606,000)	5 million YTL (€ 3 million)	25 million YTL (€ 15.15 million)
	Annual Balance Sheet Total	1 million YTL (€ 606,000)	5 million YTL (€ 3 million)	25 million YTL (€ 15.15 million)
Albania	Headcount: Annual Work Unit (AVU)	< 10 (previously <5)	< 50 (previously 6-20)	(previously 21-80)
	Annual Turnover	-	≤40 million <i>Leke</i> (around € 320 thousand)	≤80 million <i>Leke</i> (around € 620 thousand)

Source: (Adapted from EC, 2003; DPT, 2007; Xhepa & Agolli, 2004)

The micro enterprises definition embodies only the staff headcount criteria – and states that entities employing fewer than 10 persons will be classified as micro enterprises. Small and micro enterprises definition except the staff headcount criteria add to the definition financial indicators as those of the turnover and balance sheet as well as the ownership and financial independency elements. Small enterprises are those entities that employ fewer than 50 (< 50) persons, and have an annual turnover that does not exceed 40 million *Leke* (around 320 thousand Euro). The capital of the enterprise should be owned by subjects that are classified under this law as small enterprises as well. Medium enterprises are entities that employ fewer than 250 (< 250) persons; the annual turnover of the entity

³ For the EC definition of SMEs, see http://ec.europa.eu/enterprise/enterprise_policy/sme_definition/index_en.htm.

does not exceed 80 million *Leke* (around 620 thousand Euro) and at least 25% of the capital of the firm does not belong to an enterprise that is not small and medium.

4.2. SMEs in Turkey

Although SMEs constitute a major part of total industrial enterprises of Turkey for long years, they have not caught enough importance required (Ören,2003). In Turkey, SMEs have maintained their economical, social and political importance and have had a significant role to define the countries' policies and strategies (Diken,1996).

Struggling to provide a stable transition to the process of development, getting rid of inflationary instability, the importance of SMEs is comprehended better and the problems of SMEs are tried to be found out and to be solved with the acceleration of European Union process in also Turkish economy, in 2000s (Ataol, 2006).

Small and medium-sized enterprises (SMEs) play a very important role in the Turkish economy owing to their large share in the total number of enterprises and in total employment (OECD, 2004a). In Turkey, the number of SMEs including those in the service sector constitutes 99.8% of total enterprises and 76.7% of total employment. The share of SME investments within total investments reaches 26.5% and 38% of total value added is also created by these enterprises. Although the share of SMEs in total exports fluctuates on an annual basis, on the average, it is 10% and their share in total credit volume is 25% (DPT, 2007).

Table 5. Enterprise Distribution (%) (2003)

	Number of workers	Distribution (%)
SME	1-250	100,00
Micro (self-employed)	0	0,61
Micro	1-9	89,12
Small	10-49	8,24
Medium	50-99	0,99
Medium	100-150	0,38
Medium	151-250	0,29
Big-Sized Business	≥251	0,37

Source: (TurkStat, 2009).

Since 2002, within total number of industries, the rate of micro sized firms employing less than 10 workers is 96 %, 32, of small size firms employing 10-49 workers is 3 %, 09, of medium size firms employing 50-250 workers is 50-250.

Table 6. Basic Indicators on Enterprises by Economic Activity In Turkish Economy (2005, TL)

	Number of Enterprises	%	Number of Persons Employed	Turnover
Mining and quarrying	2 532	0,11	85 123	7 814 204 567
Manufacturing	302 459	12,63	2 583 747	328 781 491 700
Electricity, gas and water supply	2 958	0,10	96 302	43 437 672 806
Construction	78 776	3,3	543 799	42 482 403 303
Wholesale and retail trade; repair Of motor vehicles, motorcycles and Personal and household goods	1 119 504	46,77	2 931 797	616 594 169 816
Hotels and restaurants	191 290	8	568 848	16 396 070 054
Transport, storage and communications	430 582	17,98	1 021 309	97 371 110 402
Real estate, renting and business activities	119 572	5	655 669	25 853 934 824
Education	6 775	0,28	122 456	3 888 431 633
Health and social work	36 882	1,56	140 083	5 218 194 433
Other community, social and Personal service activities	102 248	4,27	190 761	4 798 186 267
General total	2 393 578	100	8 939 894	1 192 635 869 805

Source: (TurkStat, 2009:59).

The number of enterprises in Turkey is 2.393.578, and when industry-specific distribution of enterprises is analyzed (Table 6), it is noted that the biggest share belongs to commercial sector with the rate of 46.77 %. However, manufacturing sector has 302.459 firms, which constitute 12,63 % of the total enterprises.

The importance of SMEs for Turkey can be stated as such: (Gücelioğlu, 1994; Alpugan, 1988; Sarıaslan, 1994)

- To contribute to decrease the unemployment and to create employment country wide depending on the characteristic of being effective in resource utilization and working with labor-intensive technology.
- To keep up easier with the change and variety of demand in a shorter period.
- To complete the improvement of inputs such as raw materials, supplementary materials, operating supplies or semi-manufactures used by large enterprises and thus to form a supplier industry in the economy.
- To perform the economy by fetching the large enterprises to the competitive environment, producing the same goods and providing the same facilities.
- To foster elasticity and innovations
- To form a basis to prevent the migration from small cities to the larger city centers and to enable the region to develop within their own potential, contributing to the rise of regional employment opportunities because they are labor intensive.
- To affect the distribution of income in both functional and regional plane in a positive way by affecting income distribution in a positive way and preventing the gathering of capital in the hands of few people or large industry enterprises.

Table 7. SWOT Analyses of The SME Sectors in Turkey

STRENGTH	WEAKNESS
<p>As a positive element of employment SMEs play an important in the solution to the unemployment problem.</p> <p>Increasing awareness for the adaptation of modern production techniques.</p> <p>Contribute to regional development.</p> <p>Developing political commitment for the design and implementation of SME policies.</p> <p>Increasing motivation for innovation and entrepreneurship.</p> <p>Working with a high proprietary interest rate, which makes enterprises less vulnerable to financial crises.</p> <p>Existence of pro-active bottom-up initiatives in favour of innovation.</p> <p>Adapt to changes with its flexible structure.</p>	<p>Low private and public expenditure on research and development.</p> <p>Inadequate use of modern marketing and business techniques force.</p> <p>Deficiency in quality and branding as well as qualified labour force.</p> <p>Insufficient level of institutionalization and specialization.</p> <p>Inadequate continuous monitoring and evaluation system for SME policy measures.</p> <p>Inadequate financial sources of SMEs.</p> <p>Cannot use modern marketing techniques.</p> <p>Educational level and the quality of SME managers and employees is not at desired level.</p> <p>Collaboration and productivity levels are low.</p>
OPPORTUNITY	THEREAT
<p>It has been aware of the importance of SMEs in the economy.</p> <p>Discussion of SME and related policies at a number of platforms.</p> <p>EU membership process offers new opportunities for SMEs.</p> <p>Strategy and action approach towards SMEs is accepted by the government.</p> <p>EU markets will offer new opportunities for SMEs.</p> <p>Intellectual and industrial property rights legislation and technical infrastructure was developed for SMEs.</p> <p>Improvements in macroeconomic indicators of Turkey will provide long-term benefits.</p> <p>Further opening of economies in the Balkan, Black Sea, Mediterranean, and Middle East Countries.</p>	<p>Economic uncertainty has a a negative impact on SMEs.</p> <p>Lack of coordination between agencies which are providing services and support to SMEs.</p> <p>International sectoral-based presentation is inadequate.</p> <p>Social security contributions, tax rates etc. are high in liabilities.</p> <p>Implementations of policy and strategy documents of SMEs are inadequate.</p> <p>Issues regarding communications information and trust could not yet be overcome in some area.</p> <p>International political and economic uncertainty and instability in Turkey's neighbourhood.</p> <p>Low participation in lifelong learning programs.</p>

Source: (Adapted from DPT, 2007; 2009; Konrad Adenauer Stiftung, 2007).

In this context, in light of the SMEs' weaknesses in Turkey, attention is focused especially on three areas:

- **Financing:** Increase SMEs' share in the overall volume of bank lending; deploy structures that would enable SMEs to make more and better use of financial instruments such as venture capital and partnerships in financial or real estate investments.
- **Non-financial support:** Develop communication and interaction among service providers, SMEs, trade organisations and government agencies in order to improve the quality of services rendered and expand the number of SMEs receiving them.
- **Technology:** Raise the technological level of SMEs via training programmes and support for R&D to underpin the development of firms' technological infrastructure.

The actions to be undertaken in these three areas essentially focus on education and training, creation of new enterprises, enhancement of SMEs' capacity to take advantage of technology and legislative and regulatory problems (OECD, 2004b).

4.3. SMEs in Albania

As the transition in Central and Eastern Europe enters its second decade, policy-makers and analysts in the region increasingly recognise the importance of a good investment climate as the basis for sustainable economic growth and improvements in living standards (see, for example, EBRD, 1999). In this regard, particular attention is now being paid to the role of small and medium enterprises (SMEs) but so far there is little understanding of the difficulties and constraints facing SMEs (Muent, Pissarides, Sanfey; 2001).

In its short history of transition to a market economy, Albania has gone through several massive shocks which have influenced the development of the economy in general and the SME sector in particular. (Hashi, 2001). Over the past decade, Albania has undergone a turbulent transition, alternated by periods of relative tranquillity and steady growth to major, unforeseen setbacks. Albanian economy reveals a low level of competitiveness. In particular the low levels of export and the high trade deficit, point out to the need to take measures which will contribute to fostering the business environment, through promoting the private sector development and attracting Foreign Direct Investments (Xhepa, 2006).

After the long period of isolation, Albanian economic reforms of the first decade of transition were much focused on the areas of privatization, deregulation and liberalization efforts in all sectors of the economy. As a result, over the last few years, growth averaged at close to 6% and for 2005, the real GDP growth rate was 5.5%. Economic growth over this period was accompanied by ongoing consolidation of macroeconomic equilibrium, being evidenced in overall stable monetary indicators, low and stable inflation rates, and in the reduction of budget deficit and public debt (Dejan, 2007).

Small (micro & small) and medium-sized enterprises (SMEs) make important contributions to development. The growth of a healthy, competitive SME sector will be maximized when there is a strong enterprise culture in the society at all levels; a continuous growth in the quality stock of independent business; maximum potential for growth of existing small businesses; and a highly supportive economic, social and stakeholder environment. These are the broad target areas for policy development (Xhepa, 2006).

Private sector development has been fairly vigorous in the recent past in Albania. GDP growth has been fairly steady at 6% per annum, fuelled by expansion in sectors such as construction, transportation and services. As the end of 2004, micro and SMEs registered and operating in the Albanian economy were about 54,596 firms, which make up to 99% of total firms operating during this year (Bitzenis & Nito, 2005; Dejan, 2007). Micro and SMEs have provided employment for 56% of total employment, 65% of total turnover of the economy and 45% of total investment generated by private non agriculture sector. In particular, micro enterprises dominate with 94% of total firms operating in the country, while the Small and Medium-sized firms account for about 5% (Xhepa, 2006). Furthermore, the most important sectors for SME activities are trade and services, which

contribute to total number of enterprises and private sector employees with 73.5% and 45.2%, respectively, and generate 74% of total turnover (Dejan, 2007).

Table 7. Enterprise Distribution in Albanian Economy (2004)

Firms Size	Number of Enterprises	Annual Average of Employed	Turnover	Investments
(Total Enterprises in The Economy)				
1-4 employed	35,006	53,789	128,438	4,975
5-9 employed	1,860	11,630	60,328	3,297
10-19 employed	906	11,902	65,203	5,164
20-49 employed	559	16,679	78,415	6,517
50 + employed	336	63,283	196,701	34,236
Total	38,667	157,292	529,085	54,189
(By Sectors)				
Industry	4,818	63,104	122,884	25,888
Construction	1,325	16,783	68,988	4,127
Transport & Communication	4,313	16,783	67,012	11,004
Trade	20,258	36,079	244,039	9,881
Service	7,953	24,858	26,164	3,289

Source: (Xhepa, 2006).

As a result, the share of the private sector activity is among the highest in the SEE⁴ region, at 75% of GDP. The place and role of micro and the SME in these developments is very important; they are widespread all over the country, from the major cities to the remote areas in the villages. Therefore, neglecting their development would mean not to take into account important drives of the economic growth of the country (Xhepa, 2006). In short, small and medium-sized enterprises display the highest productivity (the production per employee), especially during 1999-2002 in Albania. Big-sized (large) enterprises low productivity is mainly related to the economies of scales for the micro group, and for the large enterprises what may be an obstacle of the productivity result is that this group is mostly comprised of the big state companies (Xhepa & Agolli, 2004).

⁴ South-East European Countries.

Table 8. SWOT Analyses of The SME Sectors in Albania

STRENGTH	WEAKNESS
Increasing government and donor support for development of the SME sector Good reputation as business partner in selected sectors such as garments, shoes etc. Proximity to the EU markets for technology transfer, sub-contracting, FDI and exports. Relatively educated and technically trained workforce. Liberal regulations for development trade and investment. Low labour costs.	Limited financial resources for investments and operational costs. Inadequate and partly obsolete technology. Limited access to information on modern production technologies and markets. Inadequate skills for strategic management of companies and marketing. Inadequate entrepreneurial culture with regard to market and export orientation. Underdeveloped stock market especially capital market infrastructure. Low level of domestic demand
OPPORTUNITY	THREAT
Increased SME lending by a number of microcredit institutions. Albanian products are increasingly replacing import. Albanian businesses look to obtain higher regional access. New financial support schemes such as guarantee schemes, leasing etc. Could be considered as future options. Removal of administrative barriers in Free Trade Agreement with CEFTA Diaspora support by Albanians living in European Countries.	The existence of informal economy. Limited ability to increase competitiveness. Unfair competition. Uncertain political situation in Kosovo.

Source: (Adapted from UNECE, 2008; Konrad Adenauer Stiftung, 2007).

CONCLUSION

SMEs have an important role in terms of their economic share in developed and developing economies though there are different definitions of SME among various organizations and countries. Today, instead of giant industries, SMEs having gained importance in the developing economies, become advantageous being economic enterprises having the capability of quick adjudication, working with less capital but more intense labor and having low cost of management and thus having cheap production. In short, the concept of *small is beautiful* becomes important in the current economic conjuncture with large firms.

Moreover, in both Turkish and Albanian economies, SMEs' share in total enterprises exceeds 90%, and SMEs play a very important role because of creating employment and value added to these economies. In this regard, small (micro & small) and medium-sized enterprises (SMEs) make important contributions to development in both economies.

SMEs, observing the market closely, understanding the requirements of customers better and having intimate relations with its employee, have more elasticity than the large ones in terms of manufacturing, marketing and service. As this elasticity enables harmony with the changes in outside in time and on-site, SMEs pass over many troubles lightly with less damage. Although SMEs have some weaknesses, they are less affected from economic

crises due to its flexibility and abilities which keep up with changed conditions. Besides they absorb economic crises effects and play a role as “compress”. In this regard, SMEs have crucial importance, especially for the developing countries.

Nowadays we have witnessed capitalism’s 2008 global economic crisis. In such a case we can say that SMEs will continue their important role. Because current economic conjuncture has generated not only disadvantages but also advantages for developing countries’ SMEs. We can expect that potential of SMEs’ impulsive force in these countries which have less large firms (big business). Nonetheless lack of policy determinations and implications accrue coordination and promotion problems in SMEs’ activities. Chronic economic problems of developing countries have affected energy of these enterprises, negatively. Briefly, providing necessary opportunities and directions of SMEs has emerged advantageous conditions for developing countries.

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