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Financing SMEs in Vlora city, Albania: between game theory and lack of information

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Abstract

The SMEs (small and medium-sized enterprises) play a crucial economical role, especially in transition economies. However, the financing problem affects the SMEs' development. Information asymmetry between banks and enterprises is the main reason for the SMEs' gaining funds so hard; the banks do not know the operating conditions and credit situation of SMEs. The study focuses on the analyses of the game of (in) complete information and financing growth strategies of SMEs in the city of Vlora to face with challenges of a sustainable development and a competitive market.

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1. Introduction

Albania was the last country in Southeastern Europe to implement the principles of a free market economy after 1990. As a small country, its market is dominated from small and medium size firms. In this respect, the development of Albanian small and medium firms is now an important issue for policymaker and this process is broadly similar to that found in other transition economies. At the beginning of transition, competition was a new phenomenon of the market, and it went beyond the economic aspect: it had effect on the political and social life because the former centralized economic system had excluded competitiveness from all aspects. The State played the main role eliminating competition related to market price or, rather, competition as a regulator of supply and demand. Western Balkan countries have one thing in common: the path toward European integration (Gruda S. and Milo L., 2010). Various researchers and policy makers reveal the importance of small firms. Taking in consideration that Albania has a small scale economy; the paper addresses the question of: Which are the challenges on financing process and sustainable development of SMEs in Vlora? This is in context of implementation of a strong legislation for competition, the increase of effectiveness of the institution of Competition Authority, the consolidation of a strong cooperation, more transparency to the public, more market players' awareness of the fact that competition means

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economic prosperity, stronger institutional cooperation and greater transparency to the public, are the major recourses of the national competition policy. On branding processes in SMEs during the entrepreneurial growth stages over time (leading to the internationalization of the company), the external driver of market orientation and internal dynamic capabilities should be aligned in the SME to reach the desired intensity of brand equity and brand growth or internationalization rate (Berthon et al., 2008). Support for the planning process in small firms comes from a variety of writers in a number of forms (Gibb and Scott, 1985). It is often asserted that strategic planning is essential for a small as well as a large business for no other reason than that it helps them to take better advantage of the opportunities which lie in the future and to forestall the threats that it contains (Steiner, 1967).

2. Literature Review And Hypotheses

2.1. SMEs sector and transition process

It is well documented that the SMEs sector can play a crucial role in the economies in transition. These countries went through privatization process since the beginning and this caused the enlargement of the small and medium firms sector. It is well identified in theory and empirically that SMEs have a vital contribution to the labour market, levels of exports, innovation, regional and national growth.

Also, small and medium enterprises can be a promoter to competition, competitive forces and market efficiency as well. World Bank Group database provides comprehensive statistics on the contribution of the SME sector to total employment and GDP across a broad range of countries (Ayyagari et al, 2003).

Much of the economic theory of the growth of small firms has been concerned with the relationship between growth and firm size and a positive correlation is indicated due to the economies of scale (Cook et al, 2002). This because small and medium businesses face specific disadvantages such as: the economies of scale; accessing to financing and the costs of raising funds; the lack of real and updated information; capability to apply technological innovations; lack of resources and expertise to deal with complex tax and regulatory systems. In order to facilitate the small firm sector development, those factors should be considered and reflected in the industrial policy in transition countries.

The transition process in the Eastern Europe during years shows that the small and medium size firms are product of the privatization process and the restructuring process. Various researchers have identified some obstacles to growth of small and medium firm sector in those countries. "...In most transition economies there is a surplus of new firm entry" (Bartlett, 2002). Also the transition countries tend to make innovative use of regulatory policies and regimes where socially acceptable, but at the same time preserve significant features of their socialist heritage (Sturm, R., Muller, M.M. and Dieringer, J., 2000).

SMEs have advantages such as:

- The encouragement of entrepreneurship;
- The utilization of the labour intensive technologies with impact on employment rate ;
- The possibility to produce quick returns;
- The ability to encourage the process of both inter and intraregional decentralization;
- The notion that they may become a countervailing force against the economic power of larger enterprises, confirm the importance of the role of SME's in the economic growth in transition countries. (Gruda S. and Milo L.,2010)

There are several barriers that affect the development of SMEs such as:

- Institutional barriers;
- Internal organizational and resource barriers;
- External market barriers;
- Financial barriers;
- Social barriers. (Smallbone 2003; Bartlett and Bukovic, 2001)

Economists have argued that there are a lot of determinants of the small and medium size firms' growth such as:

- Macroeconomic and microeconomic environment (including procedural requirements for registration and licensing, number of institutions for entrepreneurs to report to, rules and regulations governing entrepreneurial activities, laws to protect property rights, etc.);
- Entrepreneurial and business skills (including entrepreneurial training and business education, availability of information, etc.); Aidis (2003) states: "...productive entrepreneurship cannot be taken for granted in

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