SME's Performance Through Comparative Performance Indicators, Measured by Business Statistics- Albania Case

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Abstract

Now days there is a global consensus among all stakeholders that SMEs represent a driving force to the overall economic development, due to their significant contribution both on GDP and employment of national economies. SMEs also by numbers dominate the world business stage, although their contribution does vary among the countries. SMEs in Albania represents about 98% of the total enterprises with a contribution to national GDP for about 70%. The structure and the performance of national economy is depended very much on the economic performance and contribution of SME, that's why most of the governments have strategic programmes which support the SME's development. To measure SMEs' performance and their ability to compete on national and international markets requires a lot of information in all aspects. Through this paper the author aims to measure and analyze the economic performance of SMEs operating in Albania. To achieve this objective, official data on business statistics published by national the statistical office (INSTAT) are used for two years period 2014-2015. In addition using an international framework addressed to the objective "improve the techniques for SMEs productivity measurement", for the first time, a set of comparative performance indicators is established and in doing so, those results can be used as term of reference in future research activities in SMEs sector. From the results it came out that although the positive growth rate of GDP during the last years , the performance indicators of SMEs show a slightly negative trend, indicating indirectly the need for support, in order to empower their contribution in national economy.

Keywords: SMEs, performance indicators, business statistics, INSTAT

1. Introduction

The main important contribution to the economic development of the country is due to the private sector, which continuously shows growing trends not only in the traditional sector of the market economy such as service sector but is increasingly its present in the manufacturing sector.

Table 1 SMEs share in employment and value added in Albania and EU

Class size	Number of enterprises		Number of employees		Value added	
	Albania	*EU28*	Albania	*EU28*	Albania	*EU28*
	Share		Share		Share	
Micro	94.10%	92.80%	39.30%	*29.50%*	23.90%	*21.20%*
Small	4.80%	6.00%	21.10%	*20.20%*	24.10%	*18.00%*
Medium-sized	0.90%	1.00%	19.60%	*17.00%*	19.90%	*18.20%*
SMEs	99.80%	99.80%	79.90%	*66.80%*	67.80%	*57.40%*
Large	0.20%	0.20%	20.10%	*33.20%*	32.20%	*42.60%*
Total	100%	*100%*	100%	*100%*	100%	*100%*

Source: EC, 2016 SBA Fact Sheet- Albania, Instat 2014

Talking about the private sector of the economy, we naturally make parallelism between it and the SMEs sector. If we measure the SME contribution both in national or regional level, using as a start, some very basic indicators, their impact

in non-financial business economy is evident although the figures vary, especially if we refer to the contribution of SMEs in job creation and production of value added. In case of Albania, the SMEs has a decisive role on economic development, while in EU countries about 0.2% of companies classified as large ones provide more than 43% of value added and 33 % of employment of the total EU economy.

There are strong economic reasons why this parallelism is happening and in terms of the figures it's evident that in Albanian economy:

- SMEs accounting for about 99% of the total number of active enterprises
- SMEs accounting for about 80% of the registered employment, at the national level
- SMEs contribute about 55% of sales (turnover) to the country level
- SMEs contribute to about 70% of the national GDP (excluding agriculture)

But what are some of the general features that characterize the Albanian SMEs?

Table.2 General economic indicators of SMEs in Albania,2015

General Indicators at 2015	Enterprise size class			
	(1-9)	(10-49)	(50+)	Total
Number of enterprises	95%	4%	1%	100%
Annual average number of employees	45%	19%	36%	100%
Total income	25%	31%	45%	100%
Total cost	24%	31%	45%	100%
Net profit/loss	36%	20%	44%	100%
Total investments	11%	26%	63%	100%
Production	22%	26%	52%	100%
Value added	23%	23%	53%	100%

Source: Instat 2016, calculations by author

High level of participation rate in the national business register of enterprises. By the end of 2015, the register of non-agricultural economic enterprises contains about 140, thousand active enterprises, of which SMEs represent about 99% of them.

The birth rate (creation) of newly enterprises over the years is an important indicator of enterprises to evaluate the behaviour of SMEs (business) versus external factors. Referring to this indicator for the period 2012-2015, the average rate of this indicator for all SMEs is estimated for about 13% but this figure differs by activity and the highest level is measured at services sector. The relatively high birth rate of newly created enterprises is dedicated also to the fact that business environment in recent years has been stabilised. Nevertheless the trend of this indicator over the years shows that the Albanian economy has entered into the path of its sustainable development, whereby the "boom" of the newly created enterprises, as a strong characteristic for the first decade of market economy, has shifted to another level, estimated in annual average rate by 10-15%.

Table 3 Birth rate for newly created SMEs

Birth rate for newly created enterprises	Birth rate as total SMEs	Birth rate of good's producers	Birth rate of service's producers
2015	28%	17%	30%
2014	11%	13%	11%
2013	7%	8%	7%
2012	6%	5%	6%

Source: Instat 2016, calculation by author

By type of ownership, 99% of active enterprises are private-owned enterprises, and the rest is made up by state-owned enterprises, which in return covers about 6 percent of national production value. *The SMEs structure by economic sector* is dominated by the service sector, which counts

for about 80 percent of active enterprises with the prevalence of trade sector as phenomenon present in all districts of the country. *The SMEs structure by size* (using as criterion the number of employees), is dominated at about 95 percent by microenterprises and 4% by small enterprises. Most of them are self-employed enterprises.

The average size of SMEs is 2.5 employees per enterprises, which varies depending on the size of the enterprise from 1.5 per micro group, to 19 employees for medium-size enterprises.

Table 4 Structure of SMEs by size class

Enterprises grouped by the number of employees	Years					
	2010	2011	2012	2013	2014	2015
Total	100	100	100	100	100	100
(1-4)	90%	90%	89%	90%	90%	90%
(5-9)	5%	5%	5%	5%	5%	5%
(10-49)	4%	4%	4%	4%	4%	4%
(50+)	1%	1%	1%	1%	1%	1%

Source: Instat 2016, calculation by author

Concentration ratio of SMESs by geographic areas within the country is another characteristic of SMEs in Albania. About 67 percent of SMEs are concentrated in the central area of the country. The main factor influencing this geographic distribution of SMEs is related with distribution of population, so there is a fairly proportion increase / decrease in the number of enterprises alongside the increase/ decrease of the population.

The lowest number SMEs is observed in the northern area of the country for about 1% of the total SME's. **Enterprise's structure by year and size class,** demonstrate again the strong dominance of SMEs in the total number of enterprises. About 92% of SMEs are micro-enterprises, which together with small enterprises account for about 99% of the total of Albanian private SMEs. This dominance is determining Albanian as a micro-business economy. Despite the slight shifts from year to year in the number of medium to large enterprises, the majority of micro-enterprises remain dominant in the overall SME structure.

Employment is one of the most important factors of production, especially if we take into consideration that technological changes in line with modern technologies, are not yet a common phenomenon in the Albanian economy. However, the analyzes of this indicator (employment) is important not only to understand the changes on the structure of enterprise and the economy as a whole, but also from social perspective. Referring to the employment figures during period 2014-2015 for the non-agriculture economy SME's contributes on 99% of the total enterprises and 60% of the total employment at the national level so SMEs contribution is still a strong factor which generate new jobs in national economy.

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Table 5 SMEs and employment structure by year and size clas

2014		Structure of SMEs by size class	Structure of employees by size class of enterprises
Enterprise size class	(1-9)	94%	40%
	10-49	5%	20%
	50+	1%	40%
Total		100%	100%
2015			
Enterprise size class	(1-9)	95%	45%
	10-49	4%	19%
	50+	1%	36%
Total		100%	100%

Source: Instat,2016 caluculation author

The turnover figure is a very important indicator of the performance of enterprises. As a concept this indicator corresponds to the sales of goods or services, carried out by the enterprise for a certain period of time. Analyzing this indicator over the years 2014-2015, SME sector, accounts for about 55% of the total turnover realized in the economy, and the contribution to turnover of SMEs by size class (micro, small and medium) remain almost in stable position.

Graph 1 Turnover structure by size class of SMEs
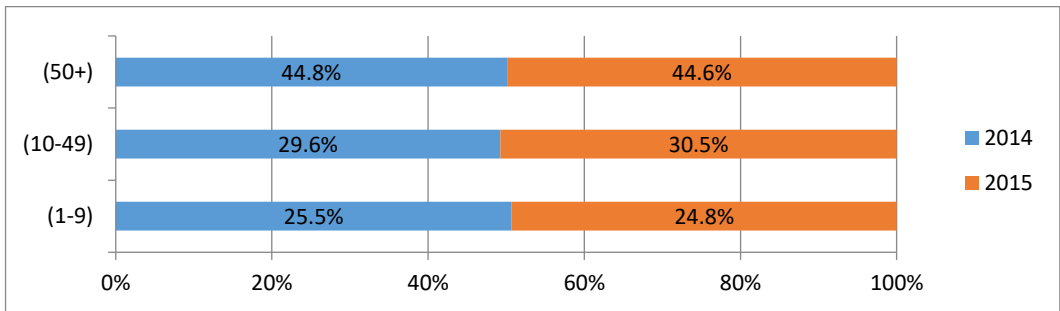
Source: Instat,2016 caluculation author

Although its nominal value is increased from year to year, the trend of annual change's rate shows a decrease (a negative trend) where the highest level is registered in 2015 with 6 point less compared with 2014.

Investment represent the value of long-term goods purchased or created by enterprises, with the intention of their use for a period of not less than one year in the production process.

The analysis of this indicator by size class of enterprises show that about 65% of it is carried out by large enterprises with more than 50 employees. Within SMEs, is the group of medium enterprises that have carried out about 26% of the total investments, so the rest of investments' is due to engagement of micro enterprises. Further more detailed analyzes show that the major component of investments is represented by "machinery and equipment" for about 40-50% followed by the investments in buildings estimated for about 15-25% of the total investments.

Table 6 Annual growth rate of investment's components

Investments by components	2013	2014	2015
Total investments	9%	11%	16%
Buildings/construction works	65%	-43%	69%
installations	-88%	89%	127%
machineries	8%	59%	-23%
transport means	8%	41%	-15%
land	-42%	-24%	144%
other	107%	-10%	74%

Source: Instat,2016 caluculations by author

The rate of annual change of total investments using chain index shows a positive trend during the years but the trend differs if the indicator is analyzed by components, so the investments in machinery goes from positive to negative trend while the investments in construction works goes from negative to positive trends.

Labour productivity is calculated as the ratio of added value to the number of employees. Theoretically, this indicator is positively related to the size of the enterprise, so it will increase or decrease by increasing or decreasing the size of the enterprise.

Table 7 labour productivity of SMEs by size-class

Enterprise size class	Labor productivity (value added per employee) In thousand ALL
(1-9) employees	68
(10-49) employees	132
(50+) employees	156
Total average,2014	**116**
(1-9) employees	53
(10-49) employees	123
(50+) employees	147
Total average ,2015	**101**

The data on labour productivity as average for the entire SMEs sector in 2015, is estimated for about 101 thousand ALL, or 13% less compared with previous year. In this growth, the highest impact is attributed to the contribution of small and medium size enterprises. Regarding the correlation among the size class of enterprises and productivity it's evident according to the data that increase of enterprise size class brings increase to the productivity. Productivity in the SME sector is growing in all economic sectors, nevertheless the growth rate differs in branches and in class sizes of enterprises.

Source: Instat,2016 caluculations by author

3. SME-s performance indicators.

Although the above mentioned characteristics provide an general overview on SMEs performance, more detailed analyzes is required to complete the "picture" of SMEs. To measure the performance, key performance indicators have to be established. **"***Measurement is the first step that leads to control and eventually to improvement. If you can't measure something, you can't understand it. If you can't understand it, you can't control it. If you can't control it, you can't improve it."* James Harrington.**

With key performance indicators, not only SMEs can measure and evaluate their performance results over time but also the policymakers can use those indicators to improve the regulative environment of SMEs both in local and national level and the society will benefit from the increase of productivity, number of jobs and wellbeing of the people.

As the first step to establish the performance analyzes framework, average economic indicators are useful to be compiled. Based on the data published by Albanian statistical institute, average economic indicators are compiled for the period 2012-2015 and from the results came out that:

Table 8 Average economic indicators of SMEs during 2012-2015

Nr	Economic Indicators	2012	2013	2014	2015
1	output per enterprise	11.65	11.58	12.16	9.58
2	output per employee	3.08	2.85	2.79	2.42
3	value added per enterprise	5.12	4.88	5.06	3.98
4	value added per employee	1.35	1.20	1.16	1.01
5	average size of enterprise	3.78	4.06	4.35	3.96
6	average income per enterprise	18.51	19.31	21.09	15.68
7	average income per employee	4.90	4.75	4.85	3.96
8	profit per enterprise	1.23	1.21	1.25	1.35
9	profit per employee	0.33	0.30	0.29	0.34
10	investments per enterprise	1.78	1.92	2.13	1.76
11	investments per employee	0.47	0.47	0.49	0.44
12.1	Profitability (VA/employee)	1.35	1.20	1.16	1.01
12.2	Profitability(profit/VA)	24%	25%	25%	34%
12.3	VA/income	0.277	0.253	0.240	0.254

Source: Instat,2016 caluculations by author

During the four years period the majority of average economic indicators of SMEs demonstrate a negative growth rate.

The negative yearly trend is more evident on average economic indicators compiled based on number of enterprise than those compiled based on number of employees, such as "value added per enterprise" or "average income per enterprise", and this is due to the fact that growth rate of number of enterprises is much higher than growth rate of number of employees, respectively 40% and 27%.

Graf.2 Long term average of economic indicators
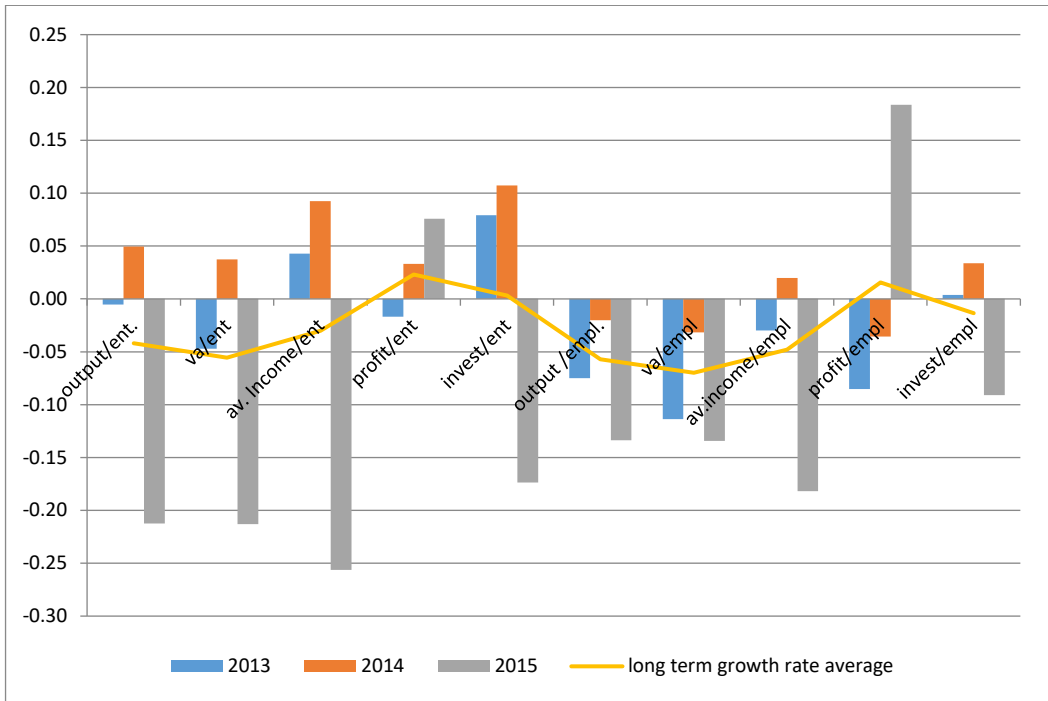
Source: Instat,2016 caluculations by author

Again for the same reason, the rest of economic indicators, income, investments and profitability (value added per employee) show a negative trend during the years.

It's interesting to compare the long-term average growth rate for the above mentioned indicators, because the results show an opposite trend, so the negative trend of long term average is higher in case of the indicators compiled based on number of employees than those compiled based on number of enterprises.

In this context, becomes very important to extend the analyses and include in addition, other indicators related with the performance of SMEs, as introduced into the manual of "Handbook for SMEs productivity measurement and analyses" prepared and published by Asian productivity organization. The model includes a considerable number of indicators described in the following table, such as:

Sales per employee	Employee turnover rate
Customer satisfaction index	Employee satisfaction index
Complaint ratio	Employee participation rate in team activity
Compliment ratio	Employee participation rate in suggestion scheme
Customer retention	Cost saving from employee involvement activities
Sales growth	Training hours per employee
Value added to sales ratio	Training expenditure/sales
Profit margin	Absenteeism rate
Annual inventory turns	Capital productivity
Defects rate	Sales per dollar of capital
Customer rejects/return	R&D investment ratio
Scrap/rework level	Capacity utilization rate

On time delivery commitment Labour productivity Labour cost per employee Labour cost competitiveness	

Source:' handbook for SME productivity measurements and analyses

- Based on this model and the data available on business statistics published by Albanian statistics Institute, is possible to measure only a part of the performance indicators mostly those related with quantitative data. The rest of performance indicators are missing from the current model established for SMEs in Albania, due to the lack of information related with SMEs qualitative surveys in the country. The results for two consecutive years and are shown in the following (ref.tab 9) :

- Following the trend of economic indicators, as expected also the performance indicators of SMEs show a downward trend, in almost all of them at least for the period 2014-2015.

- More concretely in year 2015, the negative trend of SMEs performance indicators is evident in productivity lever 1, lever 3 and lever 4. Only on productivity lever 2-related with "improvement output per unit cost of production", the results show a positive trend.

- On productivity lever 1- related with "enhance sales revenue", it's important to mentioned that although we have the same indicator, the methodology recommends two kinds of measurements "VA/sales" and "sales per employees" and as it come out from the results in the first one we identify positive trend while in the second measurements the trend is negative. Both measurements are important to be used to evaluate the performance of sales as the most important economic indicators of SMEs activity.

Table 9: Summary table of performance indicators in terms of organizational- Albania case, 2014-2015

	Indicator	What it measures	Formula	Total economy		Changes in % , 2015/2014
Productivity lever 1- Enhance sales revenue				2014	2015	
1	Sales per employee	efficiency of market strategy	VA/sales	0.25	0.26	3.0%
2	Sales per employee	efficiency of market strategy	sales per employee	4.70	4.10	-12.8%
3	Sales Growth	the potential of the company to grow	[sales (t)-sales(t-1)/sales(t-1)]		4%	
Productivity lever 2- Improve output per unit cost of production						
1	VA to sales ratio	proportion of sales created by purchased materials and services	VA/sales	0.20	0.30	50.0%
2	Profit margin	proportion of sales after deducting all costs	profit/sales	0.06	0.09	50.0%
Productivity lever 3- optimize labor utilization						
1	Labor productivity	efficiency and effectiveness of employees in generating VA	VA/number of employees	1.16	1.06	-9.1%
2	Labor cost per employee	average remuneration per employee	labor cost/number of employees	0.42	0.40	-3.9%
3	Labor cost competitiveness	efficiency and effectiveness of company in terms of its labor cost generating VA	VA/labor cost	2.79	2.64	-5.4%
Productivity lever 4- optimize capital utilization						
1	Capital productivity	efficiency and effectiveness of fixed assets in generating VA	VA/fixed assets	2.38	2.21	-7.1%
2	Sales per Dollar (unit value of money) of capital	efficiency and effectiveness of fixed assets in generating of sales	Sales/fixed assets	9.91	8.82	-11.1%

Source:' handbook for SME productivity measurements and analyses", Instat and author calculation

Also on Productivity lever 1, if we refer to the total sales, the SMEs sector show a potential increase in volume, but again further detailed analyses is required to understand the real reason behind the negative trend of the second measurement apart of the increase on the number of employees evaluated as a long term average for about 11% while value added for about 3%.

In productivity lever 3, regarding "optimize labour productivity" in all three measurements, negative trend is present. The worst situation is identified both in cases of" labour productivity" and "labour cost competiveness", while the third indicator mentioned as "labour cost per employee" although the negative trend, in fact this is a positive results due to efforts of SMEs in reduction of general expenses and in labour cost as specific ones.

In productivity lever 4, socalled "optimize capital utilization", both measurements demonstrate a negative trend, but the highest decreeased level is identified at "sales per dollar" indicator for about (-11%) in 2015 compared with previous year and this is due to the fact that although the positive growth rates for both sales and fixed assets , the growth rate for sales is less than the growth rate for investements, respectively 5 % and 9%.

Conclussions:

SMEs are highly important for Albanian economy due to their significant contribution on GDP and employment, respectively 70% and 80%.

SMEs contribution in employment terms is increasing on yearly base and in the last year the growth rate is evaluated to be 19% compared with previous year, so SMEs remain the main contributor which generate new jobs in national economy.

Albanian economy is still facing a high birth rate of SMEs estimated as annual growth rate approximately 13% and this is also due to the fact that business environment in recent years has been stabilised.

Enterprise's structure by year and size class, demonstrate again the strong dominance of SMEs in the total number of enterprises. About 92% of SMEs are micro-enterprises, which together with small enterprises account for about 99% of the total of Albanian private SMEs. This dominance is determining Albanian as a micro-business economy.

During the four years period the majority of average economic indicators of SMEs demonstrate a negative growth rate, although the figures show an increase in volume.

The same downward trend is identified when performance indicators of SMEs are compiled.

From the results it came out that although the positive growth rate of GDP during the last years the performance indicators of SMEs show a slightly negative trend, indicating indirectly the need for support, in order to empower their contribution in national economy.

Although SMEs so far have gained a considerable experience in a market economy yet there is always room for improvement in order to grow and deal with new markets.

Nevertheless the current model of SMEs performance profile remains incomplete, due to the lack and availability of the detailed data especially those related with qualitative surveys on the entrepreneurship issues.

The current results should be taken and interpreted with caution, so in the future the model above should be extended for a longer period and by combining both quantitative and qualitative indicators.

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Annex 1. Business Statistics data, 2014,2015

SMEs data,2014	Mining & quarrying	Manufacturing	Electricity, gas, water supply & waste management.	Construction	Trade	Accommodation & food services	Transport & information & communication	Services	total economy
Number of enterprises	619	7,015	531	3,495	36,357	14,637	8,176	14,377	85,206
Annual average number of employed	11,169	73,386	18,708	34,745	91,943	36,098	30,653	74,184	370,887
Turnover from sales	110,109	195,474	113,165	165,471	869,848	32,490	127,016	125,892	1,739,465
Total income	106,842	201,635	128,025	177,294	887,267	33,239	132,675	130,025	1,797,002
Raw materials and consumables	40,813	125,307	72,538	110,063	107,821	16,419	83,116	48,635	604,711
Personnel costs	13,669	26,577	11,202	17,288	25,464	7,392	18,424	34,711	154,727
other operating cost	25,477	44,781	47,965	30,617	23,946	3,056	18,192	26,599	220,633
Total costs	80,656	204,423	141,905	160,061	841,845	29,090	121,639	110,723	1,690,340
Net profit / loss	26,187	(2,788)	(13,879)	17,234	45,422	4,149	11,036	19,301	106,662
Total investment	38,237	9,841	52,687	25,667	20,211	1,281	20,508	12,846	181,278
Production value	105,629	190,846	104,600	164,704	188,050	30,639	126,070	125,322	1,035,860
Value added	64,816	65,540	32,062	54,641	80,229	14,220	42,954	76,687	431,149

SMEs data,2015	Mining & quarrying	Manufacturing	Electricity, gas, water supply & waste management.	Construction	Trade	Accommodation & food services	Transport & information & communication	Services	Total economy
Number of enterprises	626	8,137	679	3,827	45,093	18,586	7,365	20,221	104,534
Annual average number of employed	11,747	83,107	20,082	38,820	111,848	45,309	31,082	93,442	435,437
Turnover from sales	82,176	200,525	130,572	199,982	871,076	35,506	131,978	150,548	1,802,364
Total income	85,133	202,474	134,662	204,914	871,587	36,861	137,408	162,874	1,835,914
Raw materials and consumables	38,572	129,714	82,706	140,002	79,733	19,794	84,149	75,426	650,095
Personnel costs	10,918	29,613	12,549	17,934	30,472	8,885	20,709	43,552	174,633
other operating cost	30,123	23,885	12,691	23,165	21,958	3,296	29,460	18,170	162,748
Total costs	79,692	189,073	108,127	184,131	811,122	32,889	134,855	139,684	1,679,574
Net profit / loss	5,442	13,401	26,534	20,783	60,465	3,972	2,553	23,190	156,341
Total investment	24,569	21,198	59,603	23,399	27,615	2,300	25,650	23,906	208,240
Production value	81,533	192,960	131,304	195,029	191,852	34,788	132,430	150,531	1,110,428
Value added	42,960	63,246	48,598	55,028	112,119	14,994	48,281	75,105	460,332