The first qualitative survey on Albanian firms: preliminary results

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Introductory Note to " Qualitative survey on manufacturing firms Albanian"

The work has been developed within Project AQUIFALC - "The eagle and the falcon fly together," presented by the University of Bari –
Department of Economics, under the Interreg / Cards Project 2004-2006 Axis IV "Tourism, cultural and institutional cooperation."

The main aim of the project has been the creation of an Italo-Albanian Center for Economic and Social Research, in order to support the policies of international cooperation and socio-economic development carried out by governments of Italy and Albania.

The partners of the Project are:

➢ University of Bari - Dept. of Economics

➢ University of Salento

➢ Istituto Affari Internazionali

➢ Rialp

➢ Camera di Commercio di Bari / Corporate and Special Aicai IFOC

➢ IDOS Study and Research Dossier Statisitico Immigration

➢ Osservatorio Banche Imprese di Economia e Finanza(OBI)

➢ World Bank / Convergence

The OBI has been involved as partner in the project with the task to implement the Work Package 1 Task 2: "socio economic statistics" through the creation, with the University of Tirana, of a monitoring activity of the production system in

Albania.

The activity, in particular, has been articulated in:

- mapping and establishment of a database of socio-economic statistics;
- the design and construction of an experimental survey aiming at the study and monitoring of cyclical and structural economic-productive system of Albania;
- analysis of the state of the art and the dynamics of growth and development and the analysis of the margins and levels of interaction with the Italian market;
- analysis of data on the activities of production, costs of production, employment, orders to domestic and foreign, to the total sales volume; the latter two aspects has been studied with particular reference to the Italian market (and above all the Apulia Region market).

The outcomes of the work have become the subject of a "qualitative survey on manufacturing Albanians firms" (for the first time) written by Prof Enrico D'Elia. This research showed the existence of a dynamic production system in Albania: the companies that have been taken into examination are 400 and the most of them are "active business", that means that they are mainly busy into the export of their products.

The report was presented by Prof. D'Elia during the Conference On 29 September 2008 in Bari, held at the Hotel Palace in the presence of representatives of partners and Italian and Albanian involved authorities, and the concerned operators.

Now there are in progress agreement among all partners of the project in order to achieve the creation of a consortium. Therefore from the results achieved by the project, it would be possible to continue the activity of the set up Italo-Albanian Center for Economic and Social Research.

THE FIRST QUALITATIVE SURVEY
ON THE ALBANIAN FIRMS:
PRELIMINARY RESULTS

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ABSTRACT

The Banks&Businesses Regional Observatory on Economy and Finance (OBI) and the University of Tirana carried on the first qualitative survey on Albanian enterprises between July and September 2008. The main advantages of qualitative surveys are that they are able to catch the "business climate"; are very timely and quite inexpensive; are more robust against misreporting than traditional surveys. A number of statistical techniques allow converting the results of qualitative surveys in quantitative indicators. In general, the survey was a successful experiment that shed some light on the structure and dynamics of the Albanian economy. In particular, the survey confirmed that Italy and Apulia are among the most interesting markets for the Albanian firms, and vice versa, also thanks to subcontracting agreements. Also, many Albanian firms declared to compete with Italian firms on the same markets. The majority of respondents seem to have balanced and "modern" relationships with the bank system, even though the local small Albanian banks seem to be unable to follow the fast evolution of the most dynamic firms. This fact suggests the need for restructuring the Albanian credit sector. The survey confirmed that Albanian economy is fast growing, and that entrepreneurs are more optimistic about the future, compared to their European counterparts, at least just before the worsening of the ongoing world financial crisis. In any case, a number of firms complained for some credit restriction. Finally, the network of interviewers and respondents established during the survey can be exploited in the next years to gather timely information on the evolution of the Albanian economy during 2008 summer.

1   Introduction (*)

Between July and September 2008, the Banks&Businesses Regional Observatory on Economy and Finance (OBI) and the University of Tirana launched the first qualitative survey on Albanian enterprises. The survey was carried on in the framework of the project Aquifalc, funded by the New Proximity Programme Interreg/Cards 2004-2006. The main aim of the survey was to improve the knowledge about the structure and dynamics of the Albanian economy and shed some light on a number of issues usually uncovered by traditional statistics, such as the business climate and the judgement of entrepreneurs on the adequacy of actual plants. The results of the survey confirm that Albanian economy is fast growing and, what is more, its structure is profoundly modernising. In particular, the survey showed that the Albanian entrepreneurs are quite optimistic, even by the beginning of the ongoing world crisis, and firms are well integrated in the world trade system and keep equilibrate relationships with national and international banks. In addition, Italy and Apulia confirmed as the main partners of Albanian firms.

Qualitative surveys complement the official statistics, which are devised mainly to collect and elaborate the so called "hard" statistics, such as structural statistics on enterprises, national accounts, industrial production indices, export, import, etc. Indeed, such data provide valuable information useful to describe the structure and dynamics of the economy, but they can not exhaust the needs of economists and researchers who intend to analyze a fast evolving country, such as the Albanian economy.[1]

More generally, traditional hard statistics are subject to a number of criticisms, mainly concerning the possible approximate matching between reference

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[1] For a recent analysis of the strongest and weakest points of the Albanian economy, see, for instance, D'Elia (ed.) (2006), Structure and Changes of the Albanian Economy Based on National Accounts, , INSTAT, Eurostat and IMF, Tirana.

economic concepts and variables actually measured within the surveys, and the lack of information about some crucial issues, such as expectations and business climate. In addition, traditional quantitative statistic surveys are strongly exposed to the risk of misreporting some sensible data, as discussed in the Section 2 of this paper.

In particular, the concept of real output (and the related selling prices) is hardly defined in the service sector, and in other fast evolving branches of activity, where the quality of product is essential, so that any "physical" standard measurement unit of output is unable to take into account fully the real structure and dynamics of economic activity. For instance, the amount of commodities transported is only a poor proxy of the actual output of transport industry, as qualitative issues, such as timeliness, security, regularity and speed of transport improve over time. Also, the number of cars produced during the year can not be regarded as a reliable measure of the output of motor vehicle industry when the characteristics of cars change very much (and generally improve). It is worth noticing that the problem of measuring the output at constant prices is more relevant precisely in developing countries, where the quality of products is fast improving. In particular, a poor consideration of quality changes may induce a strong underestimation of production and growth, and a parallel overestimation of prices and inflation, as pointed out at least since the classic works by Griliches and Jorgenson. [2]

Another critical issue in traditional economic statistics concerns the measurement of agents' expectations and opinions. In fact, subjective believes and assessments on the ongoing and future economic situation are crucial in explaining the choices of entrepreneurs, workers, tax payers and consumers.[3] Of course, measuring the "sentiment" of economic agents by means of a standard statistical survey is not easy, first of all because agents expectations

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[2] See Griliches, Z. (ed.) (1971), Price indexes and quality change: studies in new methods of measurement, Cambridge, Harvard University Press, and Jorgenson, D. W., F. M. Gallop and B. M. Fraumeni (1987), Productivity and U.S. Economic Growth, Cambridge, Harvard University Press.

[3] In particular, the hypothesis that the behaviour of economic agents is "forward looking" is the base for the explanation of business cycles popularised by Kydland, F. and Prescott E.(1982), "Time to build and aggregate fluctuations", Econometrica, vol. 50, pp. 1350-72.

are often implicit in their decisions, rather than made explicit within some official statement, such as a balance sheet. For instance, the expectations on turnover in the next years are likely embodied in the actual investment decisions, even though they are not necessarily discussed even in some confidential internal note. As a consequence, the respondents themselves are hardly capable to report exactly their opinions to the interviewers in numeric form.

Last, but not least, often firms tend to misreport some data in filling traditional statistical questionnaires. It may happen that respondents are inaccurate because gathering information on the relevant issues is costly, while providing incorrect data to the statistical agency has no serious consequence, at variance with tax statements and the like. For instance, collecting and checking every payments received in the last few months, in addition to the usual fiscal commitments and deadlines, involves a lot of time and work. Furthermore, filling statistical questionnaires often requires some special elaboration on the ready available accounting data. For instance, when a breakdown of wages paid to men and women is required, or when the cost of commodities, freight and insurance has to be provided separately. In such cases, the "statistical burden" for the firms can be so heavy that they prefer to fill the questionnaires only with inaccurate data.

Another main reason for misreporting is related to the disclosure risk of sensible data. In fact, respondents can not be fully confident on the actual ability of statistical agency to preserve data anonymity, notwithstanding the legal provisions and guarantees. More frequently, misreporting simply aims at hiding irregular situations, specifically related to contribution and tax evasion. As a matter of fact, firms tend to make the answers to statistical questionnaires as coherent as possible with other official and public statements at least for a couple of reasons: first of all because the respondents preferably make use of publicly available information to fill the questionnaires, also in order to save time and work; secondly since the simple officers who fill the questionnaires might not be fully aware of irregular situations. Indeed, many studies have pointed out that usually the statistical surveys on firms provide

results very similar to the data available from public and administrative sources.[4]

Both the problems of evaluating the volume of production and coping with either voluntary or unintended misreporting can be eased by exploiting the so called "soft" statistics, based on qualitative surveys. In fact, qualitative judgements of entrepreneurs likely take into account properly the quality of goods and services delivered, at variance with the necessarily naïve measurement embodied in the traditional statistical surveys. In addition, pure qualitative surveys discourage respondents form misreporting even sensible data, since no numeric statement is requested. Section 2 below analyses the balance between the potential numerical accuracy of traditional statistics and the robustness of qualitative statistics Of course, soft statistics are unfitted to provide direct quantitative measures of production, turnover and other variables of interest, but a proper treatment of the results of qualitative surveys may convey reliable information about the dynamics of the variables over time, as discussed in Section 3.

From July to September 2008, a questionnaire was distributed among 400 firms, drawn from the Albanian Business Register. The questionnaire included five main sections. The first one concerned the structural characteristics of the firm (branch of activity, legal form, size, distribution of employees). A number of questions on the short run dynamics of the firm (turnover, order book, export, inventories, prices, costs, liquidity, capacity utilization, competitive positioning, etc.) follow. This section mainly derives from the experience of Business Tendency Surveys, dating since the sixties of the last century, more recently formalised in the Harmonised Joint Project of the European Commission. [5] Thus the results of the survey carried on the Albanian economy are potentially comparable with other European countries.

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[4] See, among the others, Brackstone, G. J. (1987), "Statistical Uses of Administrative Data: Issues and Challenges", Statistics Canada Symposium on Statistical Uses of Administrative Data, and Myers, A. L., Kinyon, D. L. and King C. S. (2001), "Using administrative data in lieu of survey responses for small businesses", presented at the 2001 Federal Committee on Statistical Methodology Conference.
[5] See European Commission (1997), "The joint harmonised EU programme of business and consumer surveys" in European Economy, Reports and Studies No. 6, Brussels,

In addition, the questionnaire included some sections about the relationships with the banks (debt, leverage, credit rationing, etc.); investment (including FDI and partnerships); and transports (commodities moved, direction, means of transport, etc.). The latter two issues are analysed in depth in another section of the Final Report on Aquifalc Project.

In general, respondents are asked to choose the sentence better representing their opinion about a specific fact among few (3-5) alternative items. The aggregate results of qualitative surveys are the percentages of respondents who chose each sentence. More sophisticated methods to extract quantitative information from qualitative surveys are briefly discussed in Section 3. Sometimes alternative items are presented explicitly as brackets of values. In few cases, quantitative answers are requested as well, but merely to synthesize subjective judgements (e.g.: the degree of capacity utilization).

This paper presents the main results of the first qualitative survey carried on the Albanian firms belonging to the branches of manufacturing and construction. The rest of the paper is composed by other 5 sections. The first two sections deal with some methodological issues, related to the interpretation of qualitative surveys in the framework of standard quantitative analyses. In particular, the next paragraph focuses on the main advantages of qualitative surveys, and highlights some limits of the traditional statistics occurring when misreporting is a severe issue. Section 3 explains how qualitative surveys may ease the problem of misreporting and possibly unsuitable definition of some economic variables within traditional surveys. The fourth section describes the main structural characteristics of the firms that participated into the survey and provides some comparison with information on the structure of Albanian economy reported by the Business Register. Section 5 reports the results of the survey on turnover, order book, inventories, employment, export, prices and costs. Some conclusive remarks close the paper.

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and CIRET (1998), "International Business, Investment and Consumer Surveys: A Synoptic Table", CIRET Office, Munich.

2   The overall informative content of qualitative and quantitative surveys

Potentially, quantitative surveys provide very accurate and reliable information. Furthermore, a well conceived sample design may reduce the size of sample errors to the required level. Indeed, according to a traditional view, the accuracy of a statistical survey is bounded only by the available budget and the required timeliness of the survey. [6] Nevertheless, one of the major sources of errors in the statistical surveys on economic activity is misreporting, rather than sampling errors. This fact reduces the reliability and utility of statistical data on firms, even when sampling is optimal and the survey is carried on according to the best practices.

As noted above, misreporting may be either unintentional or voluntary. The first case occurs mainly because the firms are complex organizations, where only few people are fully aware of all the data requested in a standard questionnaire. In addition, improper wording of the questions (mainly due to the possible discrepancy between the statistical jargon and the firms' language) and likely misunderstanding may worsen the quality of answers further.

Voluntary misreporting occurs when the respondents wish to hide some sensible information on the firms. Generally it happens when information is relevant for some fiscal or regulatory obligations, or when providing information may advantage the competitors (even indirectly).

Generally, the propensity to misreport information increases as the questions enter into details. In fact, a low disclosure risk is attached to very general questions, since the answers likely have small value for the fiscal authorities and the competitors as well. Furthermore, very general information is available to many people within the firms, thus the possibility that the staff in charge of filling the questionnaires is able to answer correctly is very high. On the other hand, informative value of data reduces as they are fuzzier. For instance,

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[6] See Groves R.M. (1989), Survey errors and survey costs, Wiley, New York.

measuring the turnover of a firm in euro with 2 decimal digits undoubtedly provides better information than rounding it to the nearest million euro. Nevertheless, it is worth noticing that the value of information is not strictly proportional to the required numerical accuracy of the answers. Namely, in order to evaluate only the size of a firm, the turnover rounded to the nearest million euro is almost as much useful as the exact turnover stated in the balance sheet with the highest accuracy.

On the other hand, from the viewpoint of a respondent unwilling to provide too much information, even a small reduction in the numerical accuracy of answers may reduce the potential gain for the fiscal authority or the competitors by a large amount. Thus the propensity to misreport data, and the associated information loss, likely falls more than proportionally with the virtual numerical accuracy of answers. Even assuming that the value of information linearly decays with the accuracy, as shown in Figure 1, there is a trade off between the required numerical accuracy of answers and the effect of misreporting. Notably, this fact closely reminds the Heisenberg indeterminacy principle, according to which the more accurate we measure the position of particles, the less accurate we are able measure their speed.

As shown in the Figure 1, taking into account the relation between accuracy of answers and misreporting, on the one hand, and potential value of information, on the other, the overall utility of data likely reaches a maximum for a balance between misreporting risk and potential accuracy of answers. [7]

The quantitative surveys lie in the left hand side of the Figure 1, since they put very precise questions and require exact numerical answers. Thus their results are likely flawed by a high misreporting effect. At variance, extremely fuzzy answers (e.g.: the firm sold something during the last month or not) entails a combination of virtual information content and misreporting risk like the one represented in the right hand side of Figure 1. The business tendency surveys, like the one carried on in Albania, may provide a favourable balance between actual information content of data and misreporting risk, and hopefully they

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[7] For some evidence on this issue, see also D'Elia, E. and Martelli, B. (2003), "Estimation of Households Income from Bracketed Income Survey Data", ISAE Working Papers n. 35.

admit an inaccuracy of answers not far from the optimal level corresponding to the tolerated inaccuracy T in Figure 1.

Figure 1 - Misreporting and overall value of data
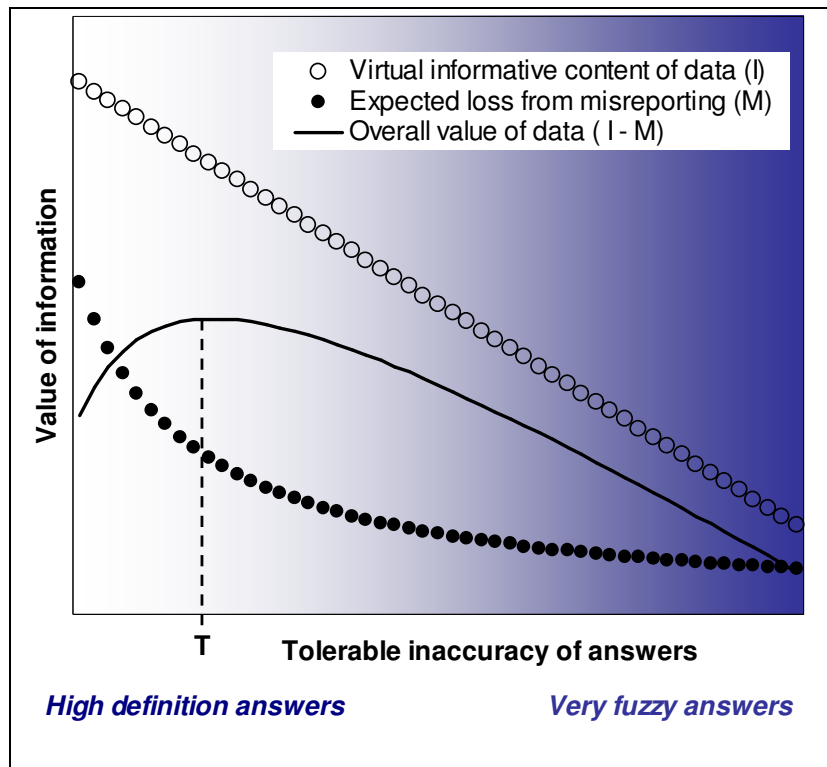
3   How to convert the results of qualitative surveys in quantitative indexes

Usually, in business tendency surveys, questions admit only three alternative replies, and are often referenced as "trichotomous" questions, but some generalisations to the "polichotomous" case are possible as well. Typically trichotomous qualitative questions belong to two classes. The first kind of questions sounds like "How is the level of variable x?", and the interviewed person is asked to choose among few possible replies such as "High", "Normal", and "Low". The second type of questions is "How did (or will) variable x change?", and the following alternative replies are admitted: "It did

(will) increase", "It did (will) stay stable", and "It did (will) decrease". Both the cases may be treated within a unified methodological framework, however, the literature devoted the major attention to the latter class of questions. In fact, the answer "It did (will) stay stable" can be naturally associated to a small change of x close to zero. However the same methodologies can be possibly adapted to the first kind of questions as well, provided that x is measured as deviation from its "normal" level, which is associated to something close to zero.

There are at least three main approaches to convert the results of qualitative surveys to standard quantitative variables. [8] The first, and most widely used, method is some variant of the probabilistic approach, sketched by Theil and popularised by Carlson and Parkin.[9] The principle behind this approach is that the respondents reply that the value of the reference variable x can be described by a certain statement (e.g.: x stays stable) if it lies between two known thresholds (e.g.: ±5% around its initial value). Thus, by assuming that the functional form of the underlying probability distribution of opinions and expectations about x is known, the average value of x can be expressed as a function of the aforementioned thresholds. Also a measure of opinions heterogeneity and operators uncertainty can be derived in the same analytical framework.

The second approach, introduced by Anderson and developed later by Pesaran,[10] is based on regression techniques aimed to estimate the value of x underlying each qualitative answer. This method requires the regression of a

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[8] For technical details and more references, see D'Elia (2005), "Using Qualitative Surveys in Quantitative Analysis", Documenti di lavoro ISAE, n. 56.

[9] See Theil, H. (1952), "On the time shape of economic microvariables and the Munich Business Test", Revue de l'Istitut International de Statistique, vol.23, and Carlson, J.A. and Parkin, M. (1975), "Inflation expectations", Economica, vol. 42.

[10] See Anderson, O. (1952), "The business test of the IFO-Institute for economic research, Munich, and its theoretical model", Revue de l'Institut International de Statistique, vol. 20, and Pesaran, M. H. (1984), "Expectations formation and macroeconomic modelling", in Contemporary macroeconomic modelling, P. Malgrange e P.A. Muet (eds.), Blackwell, Oxford.

standard quantitative measure of x against the time series of percentage of people who gave each qualitative answer. In principle, this is a way to extrapolate standard quantitative indicators by using the survey results.

The third method aimed to integrate qualitative surveys in quantitative analysis, [11] regards the percentages of each qualitative answer as function of a common "latent measure" of x observed by people but not by statisticians. Usual multivariate techniques may help in estimating the dynamics or the sectoral variations (but not the absolute level) of the latent factor affecting the opinions and expectations expressed by the interviewed operators.

As matter of fact, the time series of percentages of answers collected in qualitative surveys are much correlated. First of all, this fact implies that the latent variable approach is possibly sound and reliable. However it also suggests that even very sophisticated methods, based on complicated transformations of original percentages, tend to produce indicators that, in fact, follow the common trend and cycle that can be easily deduced by whatever time series of percentage, or a simple combination thereof. This fact explains and justifies the widespread use of the "balance" between the percentages of "optimistic" and "pessimistic" answers.

A synthesis of the main characteristics and of the strong and weak points of the various quantification procedures is provided by Table 1.

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[11] Proposed by D'Elia, E. (1991), "La quantificazione dei risultati dei sondaggi congiunturali: un confronto tra procedure", Rassegna dei lavori dell'ISCO, n. 13.

Table 1 - A synoptic table of quantification methods

Method	Main Assumptions	Advantages	Drawbacks
Probabilistic	• The functional form of the frequency distribution of opinions about the relevant variable x is known. • Respondents, reply "x did (will) stay stable" if x lies between two given thresholds. Additional assumptions are required in the polychotomous case.	• The results depend only on the observed percentages of answers and, only to a minor extent, to the assumptions on the probability distribution of the variables and on the thresholds assumed by respondents.	• The time series of results may be very volatile if some special combinations of answers occur. • Other information on x is completely neglected, even when it is available. • The treatment of polychotomous questions may be uneasy.
Regression	• Respondents attach to each qualitative answer also a reference value of x. • Reference values can be estimated by using regression models.	• It is very general, regardless to the wording of questions and the number of admitted answers. • Integration in standard econometric models is straightforward.	• A reference quantitative time series is needed. • Estimation can be flawed by multicollinearity and numerical convergence problems.
Latent factor	• A single common "latent factor" drives each percentage of answers.	• It is very general. • In principle, no extraneous information is needed. However, they can be exploited as well. • The same quantified indicator may be used both in preliminary analysis and in econometric modelling.	• Very short time series of answers cannot be treated.

The empirical evidence on the performance of various methods is mixed. For instance, in analysing data on UK manufacturing industry, Driver and Urga concluded that, generally, no one procedure outperforms the other. [12] Smith and McAleer, working out Australian data, noticed that dynamic regression

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[12] See Driver, C. and Urga, G. (2003), "Transforming Qualitative Survey Data: Performance Comparisons for the UK", mimeo.

models are generally superior.[13] In analysing data from surveys on Italian consumers and entrepreneurs, also D'Elia recommended the use of dynamic regression models, but found also that various methods tend to produce very similar results, as far as the general dynamics of the resulting indicators is concerned, since the time series of the percentage of answers falling in each category are usually highly correlated.[14] First of all, this fact suggests that what quantification technique is adopted is not so crucial, at least in preliminary analysis. Secondly, in case, it is profitable to follow the "latent factor" approach, which exploits exactly the particular covariance structure of the results. However, when the quantified indicators must be included as explanatory variables in standard econometric models, the regression approach seems to be the most suitable and practicable (and natural) one. Also, the latent factor method can be used as a profitable alternative to the complete regression approach, when multicollinearity and degrees of freedom of estimates become severe constraints.

4   The sample and the structural characteristics of the firms

The survey was carried out by the University of Tirana among 400 firms, employing about 16.000 workers. As shown in Table 2, the firms were mainly located in the district of Tirana (in the 52% of cases) and Durres (18% of cases). However, the firms located near Tirana employ about two thirds of workers involved in the survey.

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[13] See Smith, J. and Mcaleer, M. (1995), "Alternative procedures for converting qualitative response data to quantitative expectations: an application to Australian manufacturing", Journal of Applied Econometrics, Vol.10.

[14] See D'Elia (1991), cited above.

Table 2 - Distribution of firms by location (percentage)

Prefecture	Units	Employees
Durrës	18.0%	6.9%
Elbasan	6.8%	4.2%
Fier	7.0%	4.5%
Korçë	7.0%	5.7%
Shkodër	5.3%	13.9%
Tiranë	52.5%	63.7%
Vlorë	3.5%	1.2%

The distribution of firms by prefecture within the sample roughly matches that one gathered from the Albanian Business Register, shown in Table 3. Nevertheless, the prefectures of Tiranë and Durrës are overrepresented in the sample, while the district of Vlore is strongly underrepresented, and a number of small prefectures are excluded at all.

Table 3 - Active enterprises by prefecture,

in Industry and construction, in 2007

Prefecture	Number of units	Percentage
Berat	583	4.5%
Dibër	265	2.0%
Durrës	1,794	13.8%
Elbasan	835	6.4%
Fier	1,149	8.9%
Gjirokastër	452	3.5%
Korçë	990	7.6%
Kukës	128	1.0%
Lezhë	445	3.4%
Shkodër	651	5.0%
Tiranë	4,519	34.8%
Vlorë	1,160	8.9%
Total	12,971	100.0%

Source: Albanian Business Register

Table 4 shows that about 84% of respondents are small size businesses with less than 26 employees. They employ about a half of the labour force considered in the survey. About 5% of firms have less than 6 workers (including the entrepreneur), and only 1.3% of respondents are firms with more than 200 employees.

Table 4 - Distribution of firms by size

Number of employees	average size	percentage of units	percentage of employees
less than 6	3.0	4.5%	0.4%
6 - 10	6.8	12.8%	2.6%
11 - 15	11.9	13.4%	4.7%
16 - 20	17.1	16.6%	8.5%
21 - 25	21.5	12.6%	8.1%
26 - 50	35.7	23.9%	25.5%
51 - 100	69.9	10.1%	21.0%
101 - 200	139.8	4.8%	20.0%
more than 200	245.8	1.3%	9.2%

As usually happens with many statistical surveys on firms, the distribution of respondents is strongly biased toward medium and large firms. In particular, according to the Albanian Business Register, three firms out of four have less than 5 employees, in the branches of industry and construction, as shown in Table 5, while the sample includes very few small firms. On the other hand, the sample of respondents is composed of more than a half of firms with more than 20 employees, even though in the Albanian economy they represent only less than 8% of firms.

Table 5 - Active enterprises by size,

in industry and construction, in 2007

Number of employees	Number of units	Percentage
1-4	9627	74.2%
5-19	2241	17.3%
20-79	893	6.9%
more than 80	210	1.6%
Total	12,971	100.0%

Source: Albanian Business Register

The large majority of firms responding to the survey (75%) belong to the group of joint stock companies, as shown in Table 6, however, the sample includes also many self employed (19%). Indeed, according to the Business Register, the latter category of firms makes up the largest part of Albanian economy, including the sector services, while only 0.5% of firms are joint stock companies, as pointed out in Table 7.

Table 6 - Distribution of firms by legal form

Legal form	Percentage of units	Percentage of employees
Self employed	18.8%	11.1%
General or limited partnership	5.0%	7.9%
Joint stock company	75.3%	75.4%
Cooperative society	0.5%	0.4%
Others	0.5%	5.2%

As a consequence, the results of the survey should be intended to represents a picture of the situation and opinions of the best organized and structured firms only, rather than the actual typical Albanian firms.

Table 7 - Active enterprises by legal form,
all enterprises, in 2007

Legal form	Number of units	Percentage
Physical person	11,106	79.3%
General partnerships	11	0.1%
Limited partnerships	4	0.0%
Limited liability companies	2,176	15.5%
Joint stock companies	76	0.5%
Public enterprises	391	2.8%
Public administration	17	0.1%
Non profit organizations	229	1.6%

Source: Albanian Business Register

As far as the distribution of firms by branch of activity is concerned, about 60% of the sample is composed by firms producing food, textiles, "other" manufactured goods and construction. Since the system of Albanian economic statistics is still under renovation, it is difficult to say if the structure of the sample exactly matches the Albanian economic system. Nevertheless, it seems that the distribution of firms by sectors is almost the one expected for a fast developing economy of the Balkan region. Thus the sectoral composition of the sample likely reflects the actual structure of the branches of activity in Albania.

Table 8 - Distribution of firms by branch of activity

NACE groups	Percentage of units	Percentage of employees
Mining and quarrying	4.0%	2.4%
Food products; beverages and tobacco	18.1%	13.4%
Textiles and textile products	9.8%	12.0%
Leather and leather products	4.0%	21.4%
Wood, wood products, publishing and printing	7.5%	4.5%
Pulp, paper and paper products, nuclear fuel	7.0%	3.4%
Coke, refined petroleum products & fibres	1.0%	1.1%
Chemicals, chemical products	2.5%	1.3%
Rubber and plastic products	2.8%	1.7%
Non-metallic mineral products	1.8%	1.4%
Basic metals and fabricated metal	2.0%	0.8%
Machinery and equipment n.e.c.	3.3%	2.4%
Electrical and optical equipment	2.8%	1.7%
Transport equipment	3.8%	1.3%
Manufacturing n.e.c.	17.1%	10.1%
Construction	12.6%	21.2%

It is worth noticing that the structure of employment of the firms participating into the survey is characterised by a large number of unskilled workers (50%), on the one hand, and also by an unexpected large share of qualified workers (32%), on the other. The latter result seems to confirm that the respondents are generally "modern" firms, with an advanced organization of labour, requiring a significant number of skilled workers and officers. Nevertheless, it is surprising that less than one fifth of the employees have a permanent job within the firm. According to the survey, the Albanian labour market is exceptionally flexible, also for the best organised firms, even in comparison with other South East European countries.

Table 9 - Distribution of employees by qualification and status

Qualification	Percentage
Enterpreneurs	3.5%
High level officiers	5.1%
Officers	8.5%
Qualified workers	32.3%
Others	49.5%
Permanent employees	17.9%

4.1 Export and import of Albanian firms

The survey included a number of questions about foreign trade of Albanian firms, with a special focus for trade with Italy and Apulia. More than a half of the respondents (54,5%) declared to export at least a part of their products. Indeed, this percentage is very high, even taking into account that the sample is strongly biased toward larger and more dynamic firms.

As shown in Table 10, the large majority of exporting firms (about 80%) trade with Italy, and more than one fifth export their products to Apulia. Thus, data confirm that Italy is the major commercial partner of Albania, and Apulia is one of the most important export markets for Albanian manufacturing firms as well. Indeed, the percentage of firms exporting to Apulia is less than those exporting to Greece, and about the same as those selling their products to other Balkan countries and to the rest of Eurozone respectively. At the moment, Albanian firms do not trade too much with Russia, Turkey and Asia, but about one fifth of them export to USA and the rest of North America. As a consequence, the Albanian firms belonging to the sample seem to have a good

introduction to advanced markets, but only few contacts with fast evolving economies such as the Asian countries.

Table 10 - Exporting firms (*)

Destination	Percentage of exporting firms
Italy	79.3%
of which: Apulia	21.5%
Greece	25.1%
Other SEEC	20.7%
Other EU15 countries	21.7%
EU25 other than EU15	3.1%
Russia	1.7%
Other European countries (including Turkey)	5.1%
Africa	
Asia excluding China	
China	2.0%
Northern America	18.2%
Other countries	18.3%

(*) Multiple answers were allowed.

Table 11 – Import of firms (*)

Countries	Total	Raw materials	Intermediate products	Final products
Italy	52.4%	38.6%	23.9%	12.7%
of which: Apulia	17.0%	10.5%	9.4%	5.9%
Greece	18.0%	10.7%	10.5%	7.8%
Other SEEC	11.4%	6.4%	5.5%	3.8%
Other EU15 countries	9.7%	6.8%	2.2%	0.7%
EU25 other than EU15	3.3%	1.5%	1.1%	0.7%
Russia	1.5%	0.7%	0.3%	0.5%
Other European countries (including Turkey)	5.4%	3.5%	1.2%	0.7%
Africa				
Asia excluding China	2.5%	1.1%	0.6%	0.8%
China	13.1%	9.9%	9.4%	7.0%
Northern America	9.9%	8.4%	1.0%	0.5%
Other countries	20.2%	16.1%	6.4%	4.3%
No import	45.5%	23.3%	18.2%	19.1%

(*) Multiple answers were allowed

Italian market is also one of the main origins of goods and services imported by Albanian firms, as confirmed in Table 11. More than a half of the respondents declared to purchase Italian products, and so much as 38,6% of them import from our firms raw materials. It is worth noticing that Italy and Apulia export to Albania more raw materials and intermediate goods than finished goods, at variance with most other countries, exporting the three categories of goods almost to the same percentages of Albanian firms. This evidence, put together with the large share of export to Italy, seems to confirm that many Albanian firms work as subcontractors or partners of Italian firms

that send them raw materials and intermediate products to be finished and exported back to Italy.

The survey pointed out one again that Apulia is one of the most important trade partners of Albania, since about one fifth of Albanian firms declared to import from this region. The latter percentage is comparable to the percentage of firms importing from Greece, other Balkan countries (SEEC) and China respectively. It is worth noticing that the percentage of Albanian firms importing from China is not negligible (at variance with the corresponding share of exporting firms). This evidence confirms that the firms responding to the survey are able to exploit the opportunities of Asian markets, offering competitive goods and services.

4.2 The competitive framework in Albania

A special section of the questionnaire included some questions about the competitors of the Albanian firms. This issue is crucial for a country just having moved from a state controlled system to a market economy. In fact, every privatization process entails a couple of risks: the first one is that previous state held firms simply change in private monopolies, with few advantages for the consumers and for the economy as a whole; the second risk is that also the new management tends to do "business as usual", without taking into account the presence of competitors. Indeed, the survey showed that most Albanian entrepreneurs (about two out three) are aware of the opportunities and risks of having to compete against other firms, as reported in Table 12.

Table 12 - Competitive pressure

Judgement	Percentage
Yes	66,2%
No	33,8%

The large majority (84%) of competitors are other Albanian firms, but quite a large number of firms declare that they have to contend the same markets with Italian and other European firms (23% and 27% respectively), as shown in Table 13. It is worth noticing, that, at the moment, other Balkan firms are not seen as strong competitors by the majority of Albanian entrepreneurs. This evidence suggests that Albanian firms are becoming more and more challenging also in sectors and areas traditionally served by European and Italian firms.

Table 13 – Competitors' location (*)

Location	Percentage
Albany	83,8%
Italy	22,8%
Other SEEC	17,4%
Other EU15 countries	26,7%
Other countries	4,2%

(*) Multiple answers were allowed

Furthermore, the strongest rivals of Albanian firms are medium and large companies (in 36% and 54% of cases respectively, according to Table 14), while generally respondents are not worried too much for the competition of

small firms. This fact likely depends on the special composition of the sample, embodying mainly large and very dynamic firms.

Table 14 – Competitors' size

Size	Percentage
Small	8,7%
Medium	35,9%
Large	54,3%
No response	1,2%

5   The dynamics of the manufacturing and construction sectors

The survey shows that Albanian firms were quite optimistic about the general tendency of the Albanian economy, even though at the time of the survey (summer 2008) the word financial crisis was in process and the price of oil had just peaked up to its historical record. In fact, 42% of firms had foreseen a favourable outlook for the next months and only 32% were explicitly pessimistic, as shown in Table 15 Nevertheless, the uncertainty about the future was quite large yet, since as much as 7% of respondents were unable to give any answer to the question about the general tendency of the Albanian economy.

Table 15 - General tendency of Albanian economy

Judgement	Percentage
Favourable	42,0%
Unchanced	19,2%
Unfavourable	31,6%
No response	7,2%
Balance	10,4%

About 60% of respondents declared that, between July and September 2008, they produced more than during the same quarter of 2007, while only less than one third had a reduction of productive activity, as shown in Table 16. The balance between growing and slowing down firms is 26%, which is unusually large, especially considering the difficult situation of the word economy. What is more, the firms declaring a production increase, grew at a quarterly rate as large as 16,3% on average. Even though such results witness the strength of Albanian growth, they likely overstate the actual production increase or, at least, should be intended as indicative of the performance of the most dynamic firms only, which probably represent the majority of the sample of respondents, as already noted in the previous section.

Table 16 - Production

(changes vs. the same quarter of 2007)

Judgements	Percentage
Increased	57,1%
Unchanged	11,7%
Decreased	31,1%
No response	0,1%
Balance	26,1%
Average increase (*)	16,3%

(*) For firms declaring a production increase only.

The overwhelming dynamics of production is confirmed by the judgement about volume of order book, summarized in Table 17. Indeed, about 60% of firms affirmed that their order book increased as compared to the same quarter of 2007, and the growth rate was as much as 14% on average. The balance adjusted by excluding no responses suggests that the expansion of orders was larger for foreign sales (38%) than for national orders (26%), and, in particular, Italy proved to be a dynamic market for the Albanian firms.

Table 17 - Order book

(changes vs. the same quarter of 2007)

Judgement	Total	from Albany	from abroad	of which: from Italy
Increasing	58,3%	44,8%	47,8%	40,1%
Unchanced	14,4%	24,6%	22,6%	25,7%
Decreasing	19,1%	18,4%	9,8%	6,2%
No response	8,3%	12,2%	19,8%	28,0%
Balance	39,3%	26,4%	38,0%	33,9%
Balance excluding no responses	42,9%	30,1%	47,4%	47,1%
Average increase (*)	13,9%	10,7%	10,9%	8,0%

(*) For firms declaring an order book increase only.

The results shown in Table 18 confirm that Albanian firms are fast growing as well. In fact, about 60% of respondents declared that their turnover has increased, as against only one third stating a reduction. The growth seems faster for foreign sales (the adjusted balance is about 40%), and also to Italy (the adjusted balance is 34%). In addition, the firms declaring an increasing turnover, improved their sales by 17% in a year, even if the same warning already reported for production holds.

Table 18 – Turnover

(changes vs. the same quarter of 2007)

Judgement	Total	in Albany	abroad	of which: in Italy
Increasing	59,6%	40,3%	42,8%	49,1%
Unchanced	6,6%	19,7%	20,5%	17,8%
Decreasing	32,2%	30,2%	12,7%	7,8%
No response	1,6%	9,8%	24,0%	25,3%
Balance	27,5%	10,1%	30,1%	41,3%
Balance excluding no responses	27,9%	11,2%	39,6%	55,3%
Average increase (*)	17,0%	13,5%	9,6%	10,4%

(*) For firms declaring a turnover increase only.

As one might expect, the strongest growth of Albanian economy reflected on selling prices that increased in about 60% of cases, at a rate so much as 10% per year, as shown in Table 19. Furthermore, only few firms (8%) reduced their prices. Nevertheless, the rate of price increase does not match with the one declared for turnover (17%), on the one hand, and for the volume of order book (14%), on the other. Thus it is likely that respondents did not take into account properly the difference between nominal turnover and the volume of production and order book.

Table 19 - Selling prices of final products

(changes vs. the same quarter of 2007)

Judgement	Percentage
Increasing	57,3%
Unchanced	34,0%
Decreasing	7,8%
No response	1,0%
Balance	49,5%
Average increase (*)	9,8%

(*) For firms declaring selling price increase only.

Anyway, Table 20 shows that, on average, Albanian firms have enough orders to work for about 4 months, using about three fourth of their maximum productive capacity, which is considered usually a very high rate, not far form the "economic" maximum level. In other words, actual plants seem able to fulfil orders only up to 5,3 months without a need for a renovation.

Table 20 - Duration of granted production and capacity utilization

Duration of granted production (months)	3,9
Capacity utilization (percentage)	72,8%

Nevertheless, only 6% of firms consider their plants adequate for the current level of activity, and as many as 30% regard machinery as exceeding their actual needs, as shown in Table 21. This evidence can be explained either by a supposedly exceptional degree of flexibility of Albanian firms, or because the

respondents tend to overestimate severely the productive capacity of their actual plants.

Table 21 - Adequacy of plants

Judgement	Percentage
Exceeding	29,5%
Adequate	64,3%
Scarce	5,7%
No response	0,5%
Balance	23,9%

Even though the large majority of firms (71%) consider their inventories right adequate to their needs, a substantial number of firms (16%) regard the stock of inventories as exceeding the desired level as well, as reported in Table 22. This fact is consistent with a picture of Albanian manufacturing sector as producing at a very high degree of capacity utilization only assuming that most Albanian firms adopt a "just in time" strategy, in which fixed capital and inventories are minimised.

Table 22 - Inventories

Judgement	Percentage
Above the normal level	16,3%
Normal	71,0%
Below the normal level	1,9%
No inventories	10,8%
Balance	14,4%

The latter interpretation is strengthened by the judgement on employment, reported in Table 23. Indeed, a half of respondents hired new staff during the reference quarter, and the growth of employment for such firms was so much as 10%, that is unexpectedly large. Nevertheless, these data are fully consistent with an exceptionally flexible system, in which so few as 18% of employees are hired on a permanent basis (as already shown in Table 9). In fact, even if the growth of Albanian firms is fast and robust, more than one respondent out of five reduced its staff.

Table 23 – Employment

(changes vs. the same quarter of 2007)

Judgement	Percentage
Increasing	50,0%
Unchanced	26,1%
Decreasing	22,6%
No response	1,4%
Balance	27,4%
Average increase (*)	10,6%

(*) For firms declaring increasing employment only.

As shown in Table 24, more than 80% of respondents bore increasing costs either to purchase intermediate goods or for their staff. In particular, the cost of intermediate goods (including energy) rose substantially (about 11%), while labour cost grew only less than 5% even in those firms declaring some increase of wages and salaries. Indeed, labour cost dynamics seems exceptionally moderate in Albania, since one firm out of three did not report any wage increase during the reference quarter.

Table 20 – Costs

(changes vs. the same quarter of 2007)

Judgement	Percentage		
	Total	**Input**	**Labour**
Increasing	81,6%	79,2%	60,8%
Unchanced	12,4%	15,7%	33,7%
Decreasing	3,7%	3,2%	3,7%
No response	2,3%	2,0%	1,8%
Balance	77,8%	76,0%	57,2%
Average increase (*)	12,7%	10,6%	4,8%

(*) For firms declaring increasing costs only.

5.1 Liquidity and the relationships with banks

Under the very favourable conditions depicted above, it is apparent that liquidity improved or remained stable for the large majority of Albanian firms

(about one out four, as shown in Table 25). Even so, so much as 23% of firms reported some difficulty concerning their cash flow.

Table 25 – Liquidity

(changes vs. the same quarter of 2007)

Judgement	Percentage
Improved	37,8%
Unchanced	36,9%
Worsened	23,4%
No response	2,0%
Balance	14,4%

It is worth noticing that, in the last few months, the financial situation of Albanian firms is much differentiated, as reported in Table 26. On the one hand, about 30% acknowledged that the ratio of borrowing from banks to their turnover is increasing, signalling either some difficulty on the market or the launch of new investment plans; on the other hand, almost the same percentage of entrepreneurs saw a reduction of debt, compared to turnover. In any case, the percentage of no responses is substantial (13%), possibly confirming the difficulty of entrepreneurs to evaluate properly their financial situation.

Table 26 - Ratio of borrowing from banks to turnover

(changes vs. the same quarter of 2007)

Judgement	Percentage
Increasing	29,4%
Unchanced	27,8%
Decreasing	29,7%
No response	13,2%
Balance	-0,3%

Respondents seem to keep quite equilibrate relationships with the bank system. In fact, they usually have business with 2 banks on average, and borrow from the main bank only 38% of the total debt, as reported in Table 27. Of course, such evidence should be referred only to the most dynamic Albanian firms, as often noted above.

Table 27 - Usual banks

Number	2,1
Borrowing from the main bank (percentage)	37,5%

Table 28 - Location of the main bank

Judgement	Percentage
Local	10,1%
National	45,7%
Foreign	44,2%

What is more, an unexpectedly large percentage of firms deal with foreign banks (44% of respondents, as shown in Table 28), while local banks are considered the main reference bank only by one firm out of ten. Even taking into account once again the special composition of the sample, these results provide a number of interesting hints about the Albanian banking system, on the one side, and the financial structure of firms on the other. First of all, local (and likely smallest) banks seem unable to serve at least the most dynamic firms. Also national banks turn out to be the main financial partner only for 46% of firms, and these evidences point out the limits of the actual banking system and suggest the need for a deep restructuring of the banking sector in Albania. Secondly, dynamic firms carry on an unexpectedly flexible and modern financial strategy, being apparently able to make use even of the services of international banks.

However, some signals of possible credit crunch is apparent from Table 29, since 55% of firms wish to have more credit and more than a half of them explicitly suffer from credit rationing. It is likely that these results could worsen as the world financial crisis is deteriorating nowadays.

Table 29 - Credit constraints

Judgement	Percentage
Firms desiring more credit	54,8%
Firms suffering from credit rationing	50,7%

In any case, even during the reference period (i.e.: from July to September 2008), about 40% of entrepreneurs complained about the constraints put by the credit system to the firms' activity, while only 19% of them considered the

banks totally unimportant in determining the firms' strategy, as reported in Table 30.

Table 30 - Conditioning of bank on business strategy

Judgement	Percentage
Very much	14,6%
Quite a lot	24,8%
Not so much	32,2%
Not at all	18,7%
No response	9,8%

6   Conclusive remarks

In general, the first qualitative survey on the Albanian manufacturing and construction sectors was a successful experience. In few months, the University of Tirana managed to select a sample of firms from the Albanian Business Register and to establish a network of interviewers. Furthermore, they succeeded in making the firms participating to a survey which was unusual for them. Of course, the responsible staff for the field work took advantage of the long dating experience of OBI in designing qualitative surveys as well. In any case, the actual good outcome of the survey could not to be taken for granted from the beginning, at least since the local firms were not used to participate into qualitative surveys. Thus, the experiment was quite challenging and risky.

Of course, the survey met a number of limits. First of all, the number of respondents is really small (only 400 firms), and their distribution is quite different from that of Albanian firms. In particular, the sample included mainly

medium and large firms, with a modern organization, that likely represent only the most dynamic Albanian businesses, rather than the typical firms. Furthermore, there is some evidence that the respondents were quite confused about some questions, particularly in distinguishing the dynamics of their nominal turnover and the corresponding volume of production. Also, sometimes the respondents likely overestimated the growth rate of order book and production, and the productive capacity of their plants.

In any case, the results of the survey were extremely interesting, and generally matched with other information available on the Albanian economy. For instance, the survey confirmed that Italian firms are among the main trade partners of Albanian businesses, and particularly Apulia, is one of the most interesting areas for the Albanian economy. Also the survey validated some well known characteristics of the trade between Albania and Italy (and Apulia), which is more and more typified by subcontracting. In addition, some signs of the evolution of the Albanian foreign trade came to light: namely, Albanian import from China and Asia is unexpectedly fast growing, denoting the capacity of new Asian industrialised countries to penetrate also in developing European markets. In the next few years, this fact could be both an opportunity and a challenge for the Albanian firms. Furthermore, many Albanian firms declared to compete with Italian firms on several markets by now. On the one hand, this is another evidence of the development of Albanian economy, but it is also a new challenge for the Italian entrepreneurs.

The majority of respondents seem to keep balanced and "modern" relationships with the bank system. In fact, they usually are served by more than one bank and often make use of the services of international banks. On the other hand, the local (small) banks seem to be unable to follow the fast evolution of the Albanian firms, since apparently they play the role of the main reference bank only for 10% of respondents. This fact should suggest a deep renovation of the Albanian credit sector in the next few years, with interesting opportunities also for the Italian and Apulian banks.

The survey confirmed that Albanian economy is fast growing, and that entrepreneurs are more optimistic about the future, compared to their

European colleagues. Nevertheless, the data were collected just before the recent worsening of the world financial crisis. In any case, even during the reference period (i.e.: July – September 2008) some symptoms of the incoming crisis were apparent also in Albania. In particular, a number of firms complained for some credit restriction.

It would be interesting to carry on a new qualitative survey nowadays, just amid the world crisis, in order to evaluate if and how the situation of Albanian firms deteriorated. Indeed, having established a working network of interviewers and respondents can be exploited to gather timely information on such issues.