

CERGE-EI / GDN Regional Research Competition

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Title: Interaction between family network and firm growth in Albania

Non-Technical Summary

- Despite the progress reached on the macroeconomic level, particularly in terms of privatization, the Albanian economy stays behind its neighbors. Figures on firm size in the country show that they tend to remain small.
 - o The most recent Albanian National Institute of Statistics' (INSTAT) figures show that firms are mainly individual or of small size. The share of micro and small firms (1-4 employees) in 2009 was 92 percent, of which only a third were created before 2003.
 - o The predominance of small firms since the collapse of communism leads to the questioning of the traditional channels of growth. The social networks in Albania are such that in the context of post-communist transition, social entities that prevailed before or during communism are found reinvigorated. The reason is the lack of trust in state or market institutions which leads to favoring the most trustable entities, i.e. social networks, in economic transactions.
- So far, there is no research that links social and economic factors of firm growth into a single framework aimed at encompassing the specificities of the transition context. This article analyses the determinants of small firms' growth in Albania.
 - o 265 small Albanian firms surveyed in 2010. Respondents are socially homogenous (male, married and living in urban areas) and with no degree in business management.
- Evidence is given on the family network being involved in small firm growth in a transition country.
 - o The influence of the family network on firm growth is negative, i.e. it does not help the small business to develop.
 - o Government subsidies, young age and membership in business associations positively impact firm growth in urban areas in major Albanian cities.
- Three econometric models are utilized: a probit, a binary logit and a multinomial logit model.
- The recommendations of this research are:
 - o Further training in business management and practices is needed in Albania. It needs to encompass the management of economic and social resources that are locally developed. In effect, the development of human capital is difficult with individual firms aiming at supporting families rather than accumulating and growing.
 - o Government aid has to be targeted to the specificities of small firms.

Keywords:

Firm growth, Family network, Albania, Probit model