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Output III of the Project:

Survey on Business Constrains and Business Development in Industrial Sector

Financed by UNDP/UNIDO in the frame of the project:

Restructuring of Enterprises and Competitiveness Development (DP/ALB/97/202)

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Tirana, February 2002

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SURVEY
ON
BUSINESS DEVELOPMENT IN INDUSTRIAL SECTOR

Introduction
This material is a summary of the conclusions for the third stage of the project on "Constrains faced by the Albanian Sector of Industry, Indicators of Business Development and Industrial Confidence". This project is part of the UNDP/UNIDO on "Restructuring of Enterprises and Competitiveness Development" (DP/ALB/97/202). The first phase, or output I of the project, was related to the possible constrains that currently is facing companies operating on industrial sector. This work was done through a survey of about 60 companies located Tirana and Durresi. The second phase was about the methodology of conducting a business survey in industrial sector, as well as drawing of a representative sample of companies and designing the questionnaire. Such work was entirely based on the recommendations and guidelines published of European Commission about harmonised business surveys.

Based on the second output, in the third phase the CRD was involved in a more complex and extended survey. This is in both terms: company's numbers and questions asked to be answered. During this survey we randomly selected about 350 enterprises, out of which 178 were selected but only 133 have been able to be identified and interviewed. The companies we located in Tirana, Durresi and Vlora. From the total number we have direct interviewed 133 from them 14 were not production oriented, only 8 did not accept to be interviewed and 111 could be conducted, the rest have changed the activity or have been closed. Due to a size classification of enterprises (based on the number of employees), we found out that 41 were small (consisting of not more than 10 employees), while another 43 (over 10 employees) and 27 out of the latter (consisting of over 100 employees).

Organization of the work
The interviews were organised through direct contacts with the principals of the selected enterprises, i.e. the owner or co-owner, who was also the manager of the unit surveyed. By using this method we aimed at receiving realistic answers to our questions in order to draw a realistic picture of their business situation and environment. All three types of businesses were identified separately, case by case (small, medium and large). We determine the size business activity on the basis of the number of employees and not the volume of production as INSTAT did not provide us with such an information. We also identified the type of entrepreneurships to get a clear picture of the two current major types, public and private enterprise.

As we have pointed out during the first phase, the inaccuracy of National Register's companies created some additional work for the CRD's staff involved in this project. The records it contains consisting with the lack of update information and, in certain cases, lack of complete data about companies (location, phone number, etc.) that hindered our work. The enterprises' group we surveyed consisted of 6 state owned company, 6 joint ventures and 99 private ones. Enterprises were contacted

during the period 15 January-12 February 2002. The data collected by means of questionnaire was processed on basis of answers to the questions (they were expected to receive equal positive or negative answers; interviewees could select only one of the options). The answers were also double weighted according to the size of the company as well as the sector's size.

In the following section is given the full information about each of the question posted in the questionnaire, as well as the relevant comments about the aggregate answer of the companies.

Q1: Assessment of Production activities in the last month

This question aims to evaluate the tendencies of production curve by linking current production with previous one. The question provides only three options: up, unchanged down. The answers we collected show that for time being small enterprises are braced to face of production decrease. They count about 63 enterprises from 111 interviewed (see Table 1 and Figures 1 and 1/a). An up answer is given by 26 enterprises. The aggregation weight of their answer is higher (34%) due to their large size. Comparison of columns 1 and 3 in respective figures 1 and 1/a show such results before and after answers are weighted up. Table 1 gives a detailed presentation of the number of enterprises and the weight they comprise out of the total of answers.

Table 1: Assessment of production activities in the last month:

	Frequency	Percent	Cumulative Percent	Weighted cases
Up	26	23,4	23,4	34,0
Unchanged	22	19,8	43,2	24,0
Down	63	56,8	100,0	42,0
Total	111	100,0		100,0

Fig. 1: Assessment of production activities in the last month

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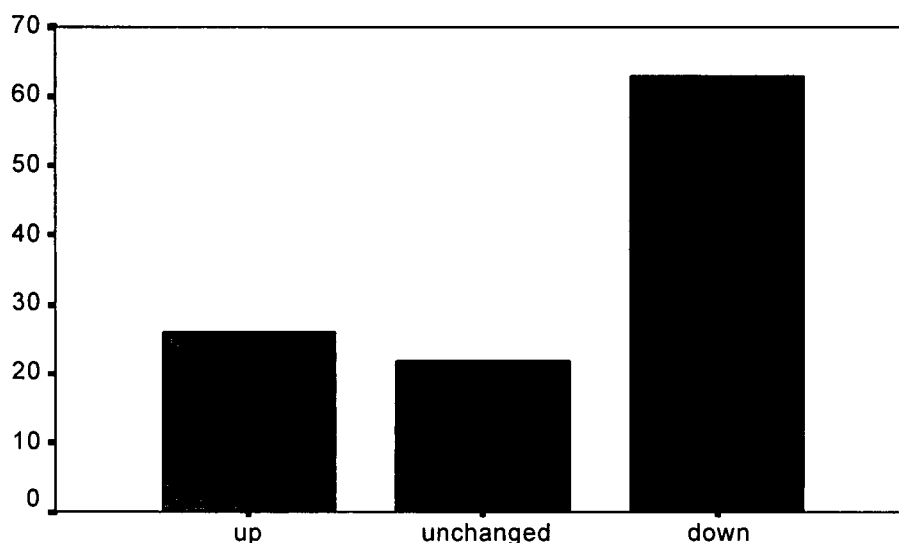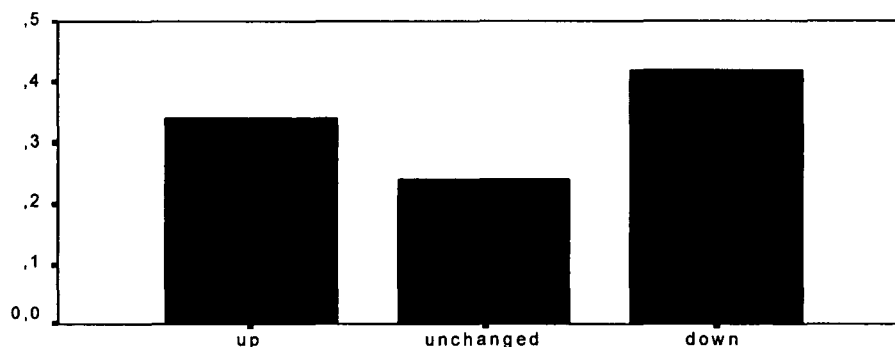
Fig. 1/a: Assessment of production activities in the last month (weighted

Comparison of answers to question 1 and question 5 (*Q. 5Production activities for the next 3-4 months*) with the size of enterprise leads us to the conclusion that generally speaking large enterprises in the Albanian market are more consolidated; whereas the small enterprises are easily affected by various factors that will be analysed later on.

Another important conclusion from this question can be drawn if we compare this answer with the one we did two months ago about production perspective. At this time aggregate weighted answer of the companies was that production is going down. Such conclusion speaks for a real ability of both surveys conducted in the frame of this project.

Q2: Assessment of the total order books present level

Regarding this question about 63 enterprises are responding negatively which mean that currently they are suffering by an insufficient demand, in aggregation weight this is represented by 56,8% of the total volume. Both figure 2 and 2/a confirm that firms have insufficient demand for their products.

Since this interview is conducted at the begging of the year, we might conclude that this phenomenon is also due to a seasonal adjustment factor as normally speaking during the first month's production activity in all industrial sectors there is a slow-down in their activity and after that we might expects that the curve could start a positive path.

Table 2: Assessment of total order-books present level

	Frequency	Percent	Cumulative Percent	Weighted cases
No answers	2	1,8	1,8	2,8
Up	10	9,0	10,8	12,7
Unchanged	36	32,4	43,2	59,6
Down	63	56,8	100,0	25,0
Total	111	100,0		100,0

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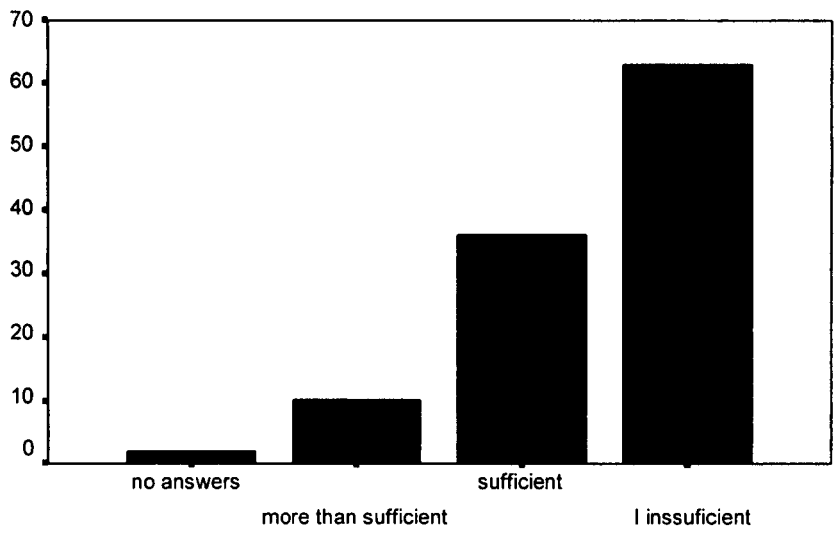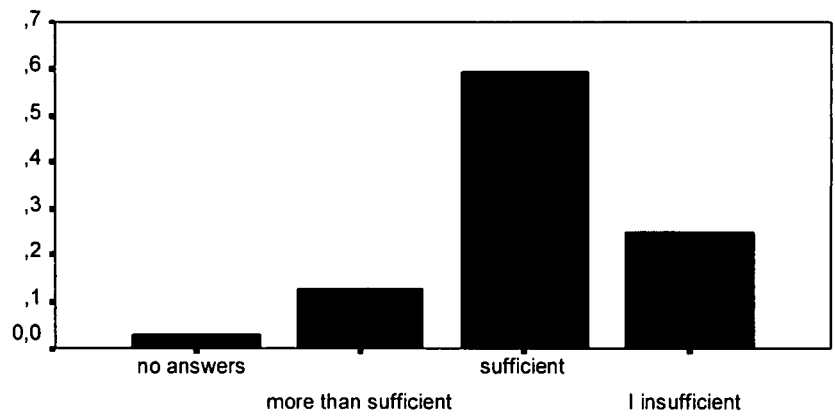Fig.2: Assessment of total order-books present level

Fig.2/a: Assessment of total order-books present level (weighted)

Q3: Assessment of export order books

The answer of this question reveals no any significance. However, such response does not mean that general export situation of enterprises under investigation is fairly good. The reason might be also a low activity of the companies in the external market (figure 3 confirms that statements).

Table 3: Assessment of exports order-books present level

	Frequency	Percent	Cumulative Percent	Weighted cases
No answers	62	55,9	55,9	24,2
Up	8	7,2	63,1	14,8
Unchanged	27	24,3	87,4	51,8
Down	14	12,6	100,0	9,3
Total	111	100,0		100,0

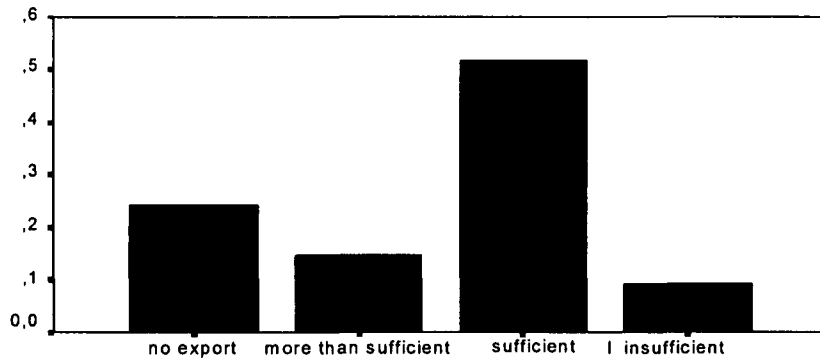Fig.3: Assessment of export order-books present level
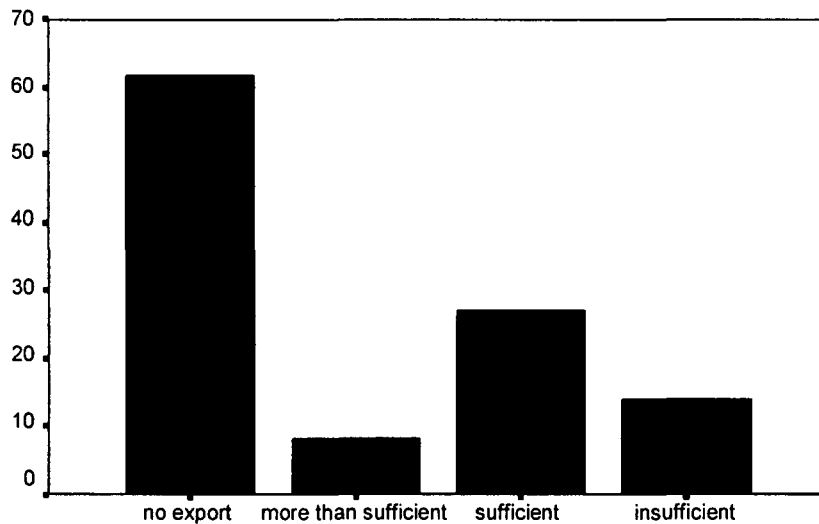
Fig.3/a: Assessment of export order-books present level (weighted)

Q4: Assessment of stock finished goods present value

The answer of question 4 reveals that both small and big size companies have insufficient stocks of finished goods. The answer shows that more the half of the companies face shortages in the stocks of finished goods. This might become from financial difficulties that companies might have for time being.

Table 4: Assessment of stocks o finished goods present

	Frequency	Percent	Cumulative Percent	Percent
Based on the contracts	22	19,8	19,8	7,7
More than sufficient	17	15,3	35,1	28,8
Sufficient	21	18,9	54,1	15,7
Insufficient	51	45,9	100,0	47,8
Total	111	100,0		100,0

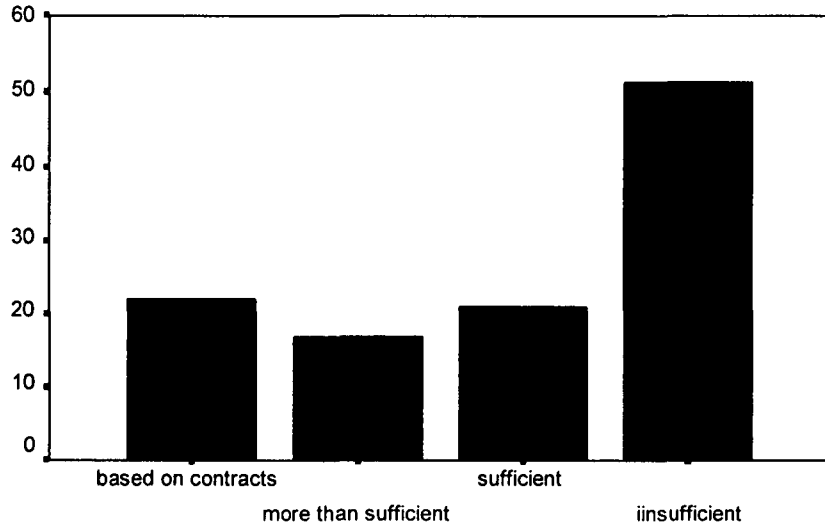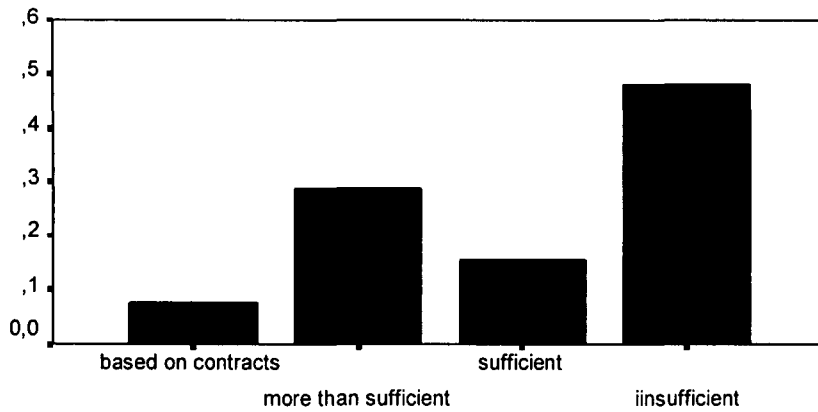Fig.4: Assessment of stocks of finished goods present

Fig.4/a: Assessment of stocks of finished goods present (weighted)

Q5: Assessment of production activity for next 3-4 months

Question 5 is key question, as it assesses the general trend of industrial production in the near future. According to the results presented in Table 5 and figures 5 and 5/a, it can be said that most small size companies expect a downturn on industrial production. However the fact is aggregate weighting results (see figure 5/a) shows that

industrial production is likely to go up in the near future. This shows once again the big business does fell the current constrains (i.e. shortages in electricity for example)

Table 5: production activities for the next 3-4 months

	Frequency	Percent	Cumulative Percent	Weighted cases
No answers	2	1,8	1,8	,3
Up	32	28,8	30,6	35,9
Unchanged	39	35,1	65,8	40,0
Down	38	34,2	100,0	23,8
Total	111	100,0		100,0

Fig.5: Production activities for the next 3-4 months
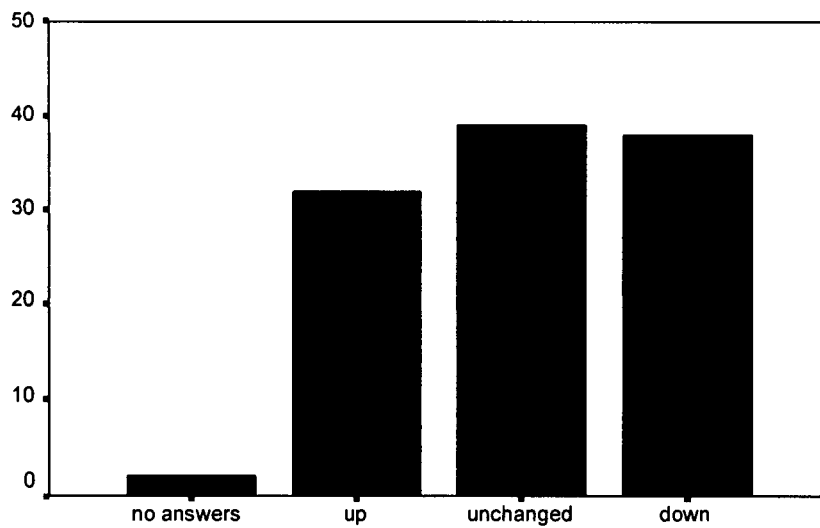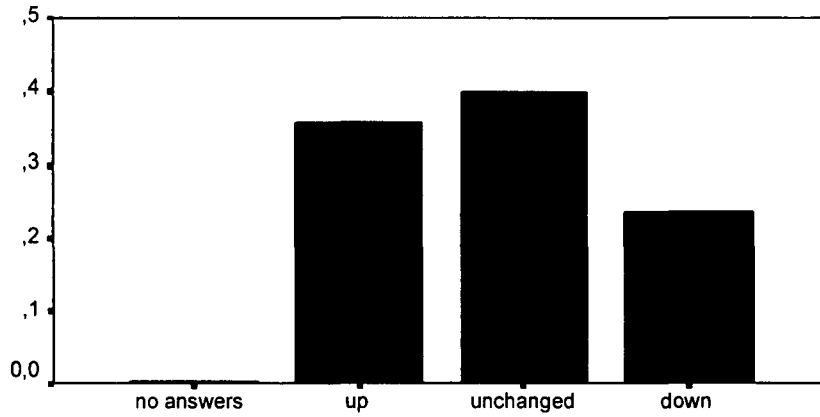
Fig.5/a: Production activities for the next 3-4 monthsm (weighted)

Q6: Selling prices expectation for the next 4-3 months

When we see the answers related to selling prices expectations the total number of firms with positive answers counted 18 and negative ones 19. Such distribution indicates that in near term we will have more or less in the same level of producer price index. Moreover, 67 enterprises think that the prices will not change, despite the fact that the production conditions are becoming much more difficult (lack of electricity etc). Another reason why the entrepreneurs are not willing to increase prices could be regarded also to the low market demand for industrial goods.

Table 6: Selling prices expectations for the next 3-4 months

	Frequency	Percent	Cumulative Percent	Weighted cases
No answers	7	6,3	6,3	8,8
Up	18	16,2	22,5	21,6
Unchanged	67	60,4	82,9	51,3
Down	19	17,1	100,0	18,3
Total	111	100,0		100,0

Fig.6: Selling prices expectations for the next 3-4 months
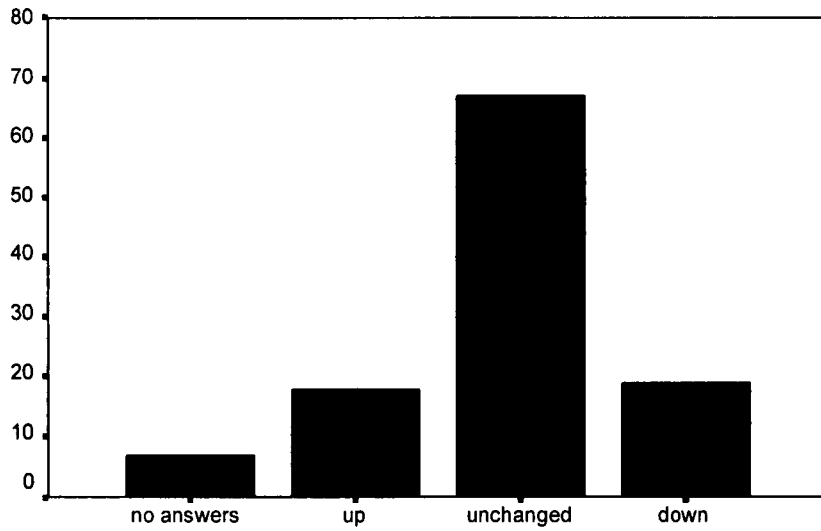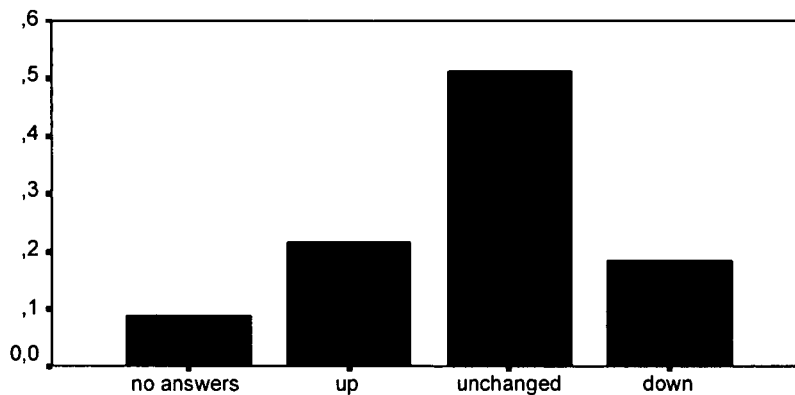

Fig.6/a: Selling prices expectations for the next 3-4 months (weighted)

Q7: Employment expectation for the next 3-4 months

The tendencies of employment for the next months will be unchanged. About 67 enterprises answered for the unchanged employment, 16 that they will increase employment and 25 will decrease. However if we see aggregate weighting figures we see that employment will increase in the near future. This again shows the optimism tune of a big firm against the small ones.

Table 7: Employment expectations for the next 3-4 months

	Frequency	Percent	Cumulative Percent	Weighted cases
No answers	3	2,7	2,7	4,7
Up	16	14,4	17,1	26,9
Unchanged	67	60,4	77,5	54,6
Down	25	22,5	100,0	13,8
Total	111	100,0		100,0

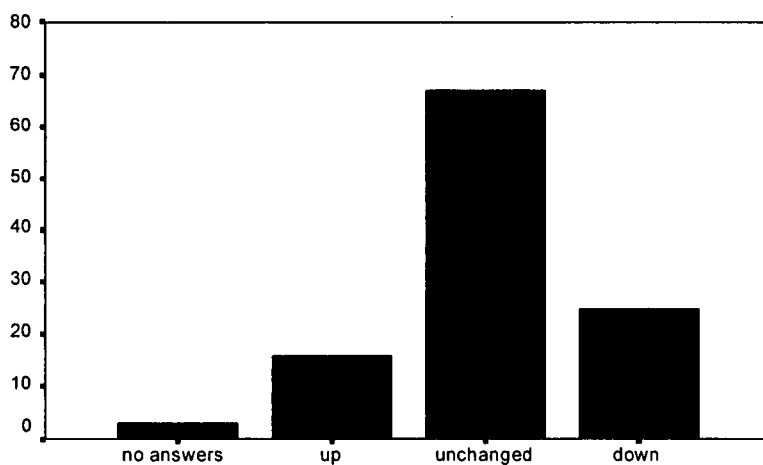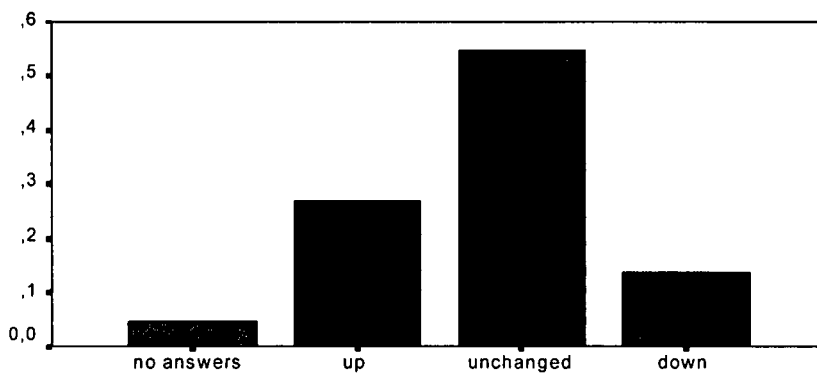Fig.7: Employment expectations for the next 3-4 months

Fig.7/a: Employment expectations for the next 3-4 months (weighted)

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Q8: Limits to production (present situation)

The respond of above question shows that about 104 enterprises out of 111 gave an affirmative answer with regard to constraints on the production activity. If this answer has to be assesses from the point of view of the size (see Table 8 and figure 8/a) it can be shown that about 91 % of activity in the industrial sector is facing several constrains.

Table 8: limits to production

	Frequency	Percent	Weighted cases	Cumulative Percent
None	7	6,3	9,0	6,3
yes	104	93,7	91,0	100,0
Total	111	100,0	100,0	

fig. 8: Limits to production
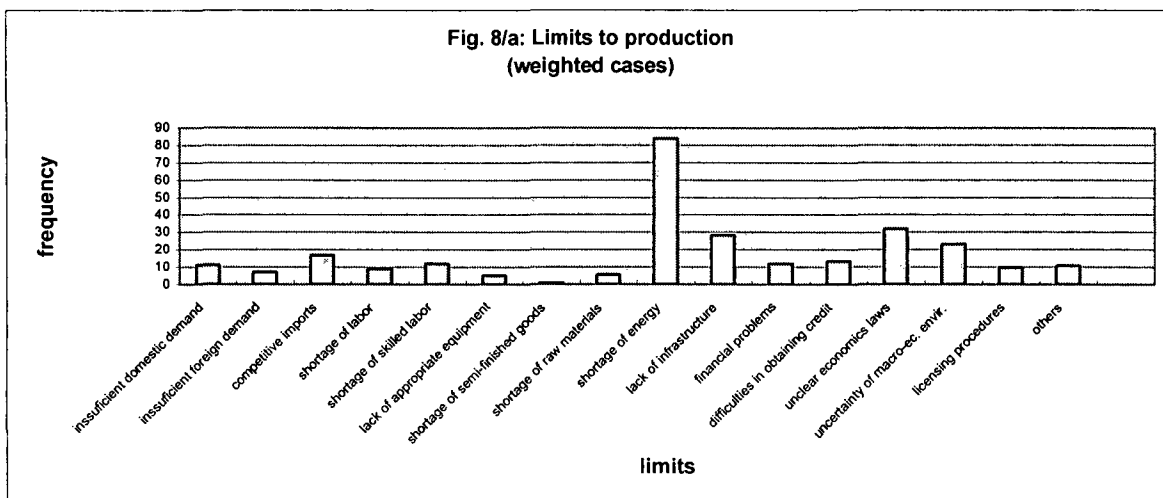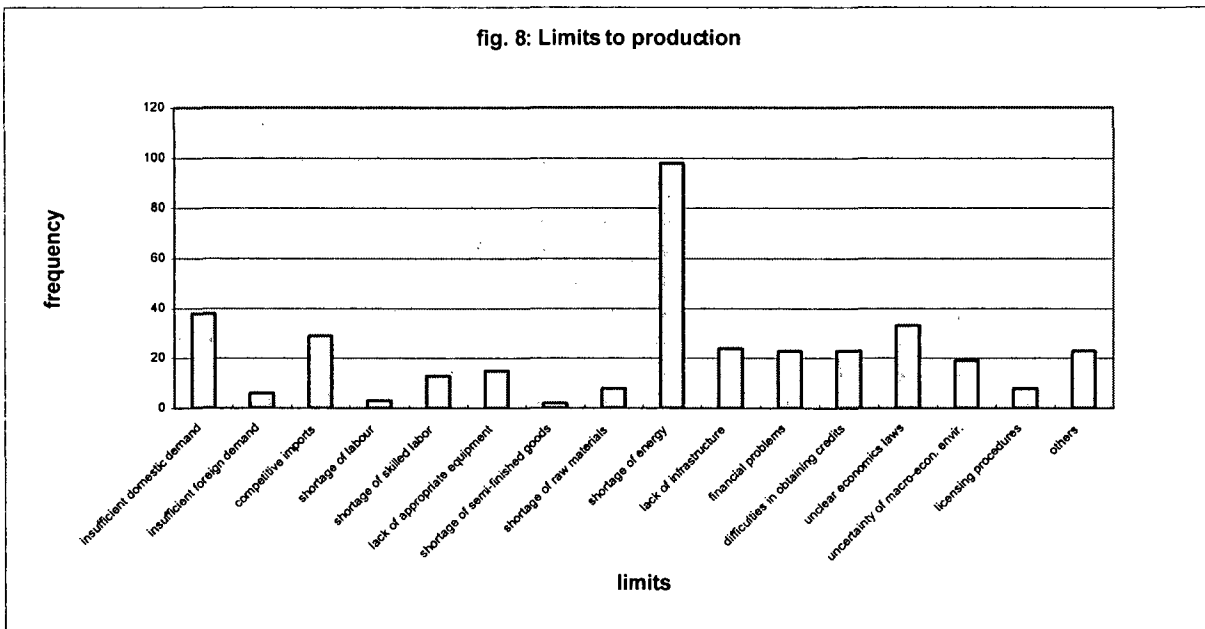

Fig. 8/a: Limits to production (weighted cases)

Figure 8 gives a general synthesises about the geography of constraints. According to this figure the most significant factor limiting industrial production is electricity constrains. This is because 98 of interviewed firms or about 84 % of them pointed out this factor. In the current situation, this answer does not come as a surprise. Same level of response we got also from the previous survey.

The second major constrain is connected with legislation, especially the fiscal one. Companies face difficulties with regard to taxation system. It was noticed that small enterprises could not afford the present level of taxation. Another concern is the customs policy. They pay a full (high) tax for semi materials, which is re-exported. A question also is raised about legislation ambiguity and its interpretation.

About 23 enterprises face financial difficulty and this situation is further aggravated by lack of access to credits and the relatively high banking interest rates.

Lack of domestic and foreign demand is another significant constrain for small enterprises (about 44 enterprises have such a concern). In spite of total lack of evolution with regard to this factor, it has got a many-folded impact and as such asks for attention.

On the overall, evaluation showed that labour force is not a constraint to the Albanian business. Entrepreneurs themselves posed other constrains such as unfair competition, smuggling (no custom duties are paid for commodities; in certain cases the commodity profile or destination is altered to avoid the customs duties). These are quite a concern to the normal development of their businesses.

Q10: Expected total demand for the next 3-4 months

The forecast for the next 3-4 months on demand side of the economy is slightly positive, with statistical counting results, that 31 enterprises thing that demand for their products will be increased, while 29 shared the opposite view and the others did not expect any change.

This result in aggregation is more or less the same. We think that this conclusion is based on the optimistic view that entrepreneurs have for the future.

Table 10: Expected total demands for the next 3-4 months

	Frequency	Percent	Cumulative Percent	Weighted cases
No answers	5	4,5	4,5	8,2
Up	29	26,1	30,6	37,6
Unchanged	46	41,4	72,1	46,3
Down	31	27,9	100,0	7,9
Total	111	100,0		100,0

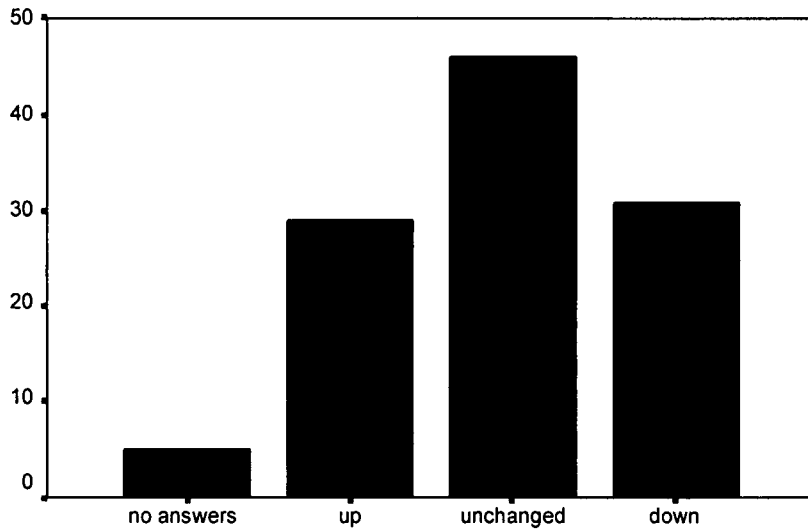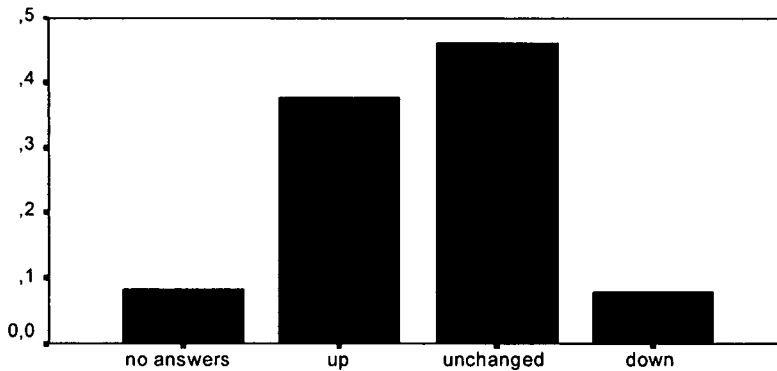Fig.10: Expected total demands for next 3-4 months

Fig.10/a: Expected total demands for next 3-4 months (weighted)

Q12: Assessment of current capacity utilisation

Evaluation of the answers to this question showed that all enterprises actually are not working in full capacity, due to the above-mentioned constrains that they face. Referring to cross answers, the enterprises actually are working with a low range of their capacity. The average of their capacity is about 38%.

Q13&14: Fixed investment for next year/ if fixed investment is planed, what type it will be primarily to

Assessment of the answers to this question shows that about 53 of interviewed entrepreneurs have not planed fixed investments for the future. Whereas if we consider the answers corrected by the aggregation weight, it can be seen that future investment comprises about 57,6%. Such result shows that big private companies could accomplish investment in fix assets, while the small and medium one are not capable to do it. State enterprises also are included in the latter group.

Table 13: Fixed investments

|	Frequency	Percent	Weighted cases	Cumulative Percent
No	58	52,3	42,4	52,3
Yes	53	47,7	57,6	100,0
Total	111	100,0	100,0	

Fig.13: Fixed investment
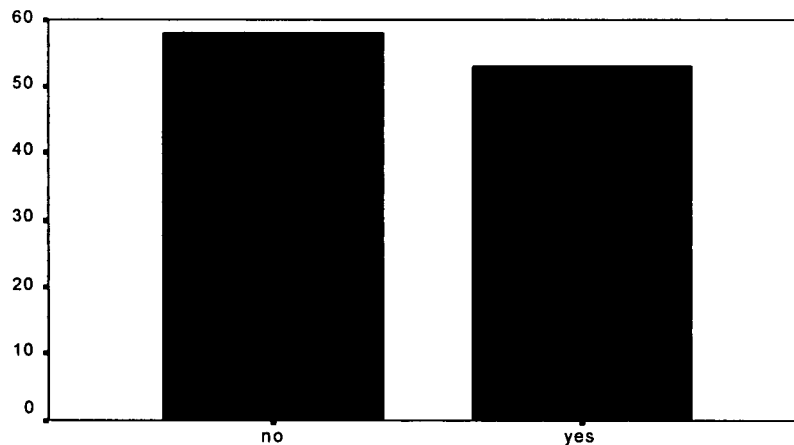
Question 14 indicates the major investment directions, which have to be made by enterprises in the near future. With the answers of this question figures 14 and 14/a are compiled. According to the figure14 we realize that 22 enterprises will invest on acquisition of new technology and 29 others plan to replace the old machinery and equipment. This investment intends replacement of old machinery and equipment as those in actual use at about 30% of enterprises (they comprise an aggregation weight of 43%) are second hand. 26 enterprises have planed investment on their product range, mainly large ones. The number of enterprises, which have allocated investment to increase output capacity and in mechanization and automation have no significance.

Fig. 14: Fixed investments
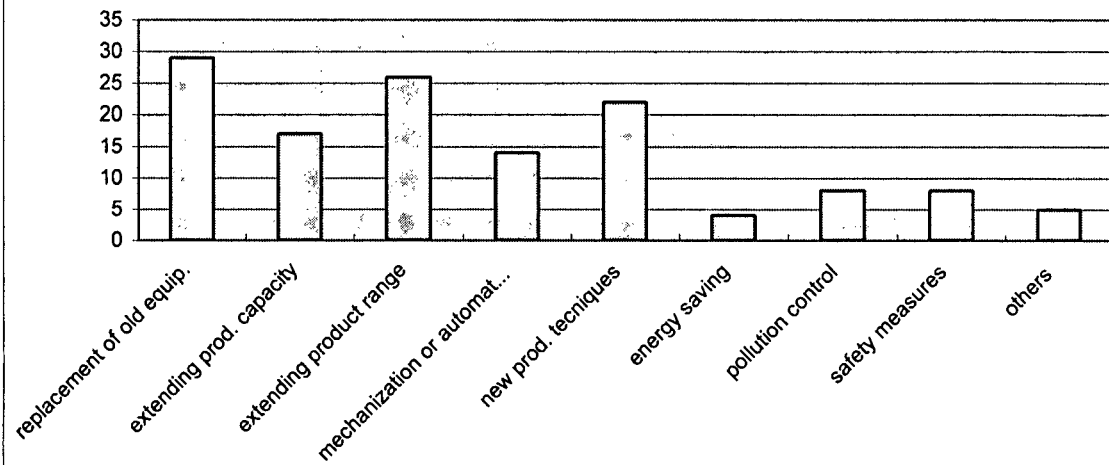
**Fig. 14/a : Type of investments
(weighted cases)**
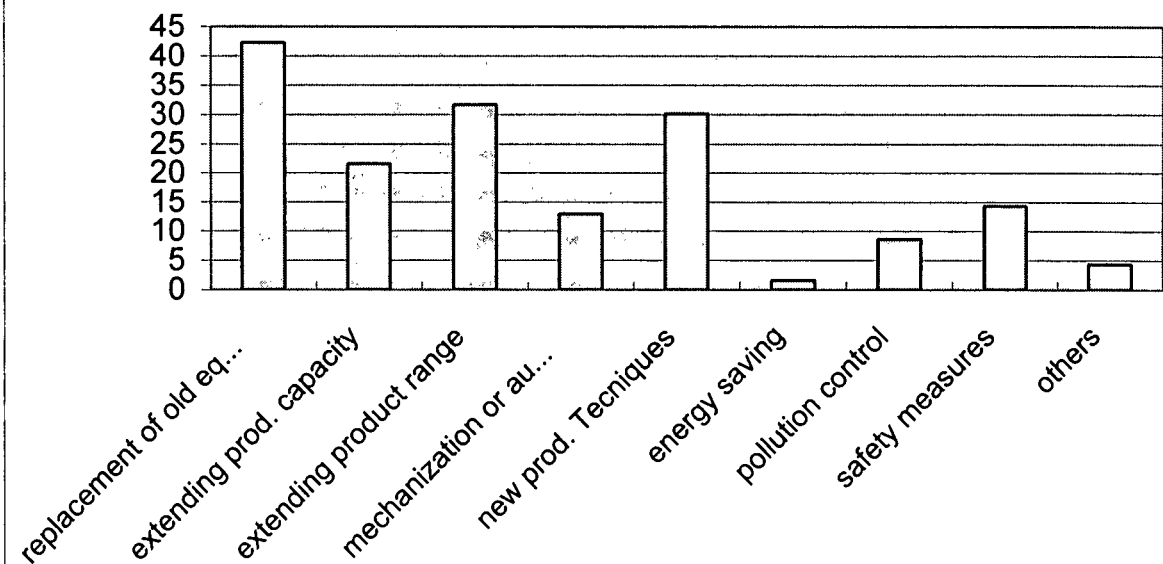
Replacement of old machinery comprises a major issue for the sector of industry.

Q.15: Factors limiting planned investments for next year

This question is posted to assess the factors that could possibly harm or limit future investment. Generally speaking, from the interview we saw that the entrepreneurs feel un-secure for their future. They think that the most problematic is the access of credits lines (26 enterprises) and the low profit (50 enterprises), which are dominant factor limiting investment in the near future. Figure 15 and 15/a illustrates those factors.

Fig. 15: Factors Limiting Planned Investments
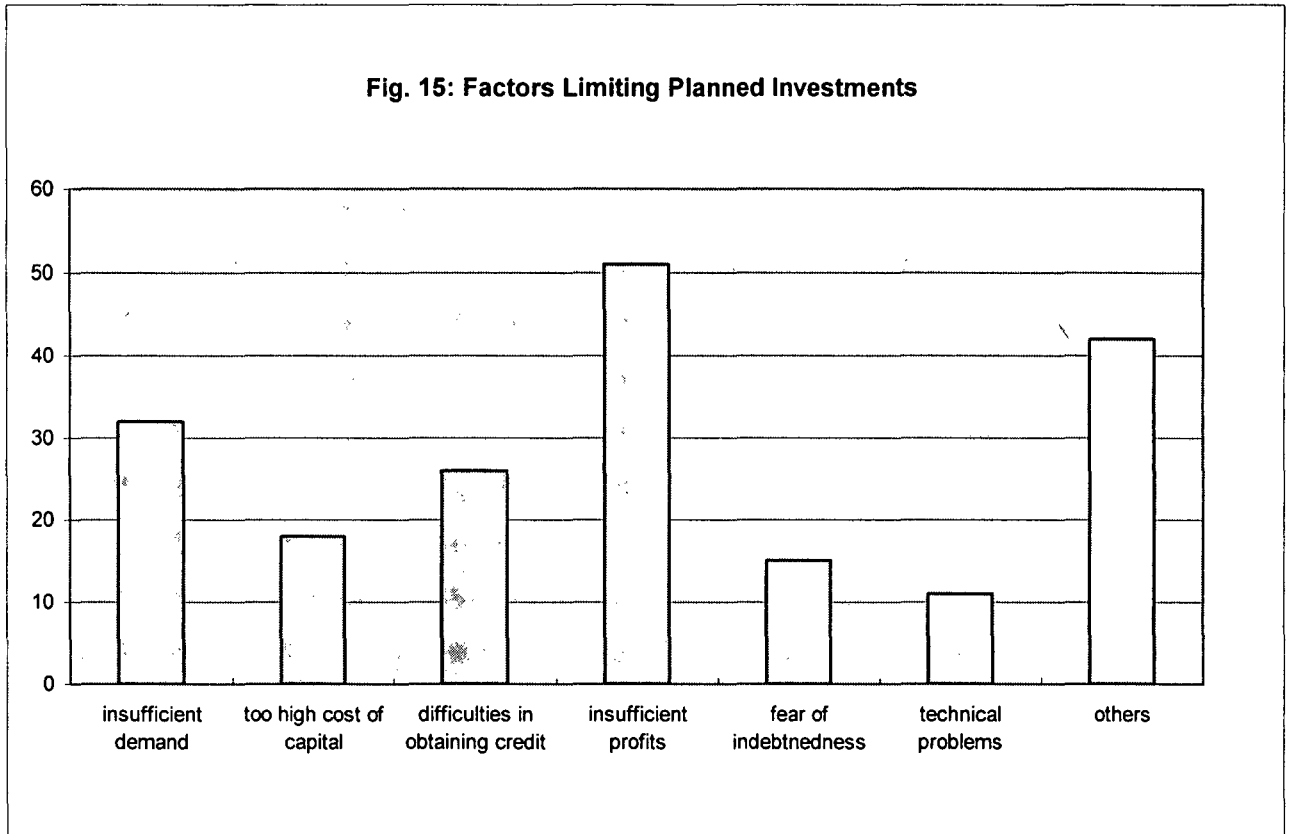
Both figures 15 and 15/a shows that column others (42 enterprises) has high significance. Here are all other factors that entrepreneurs added to the top of our list such as the fact that state policy is not supportive, political instability, local governance etc. Another constraint highlighted by the entrepreneurs is the insufficient profit that does not allow for future investment. This shows that private enterprises on the overall and the state ones in particular have a very low performance activity that does not allow for application of investment program.

Fig.15/a: Factors Limiting Planned Investments
(weighted cases)
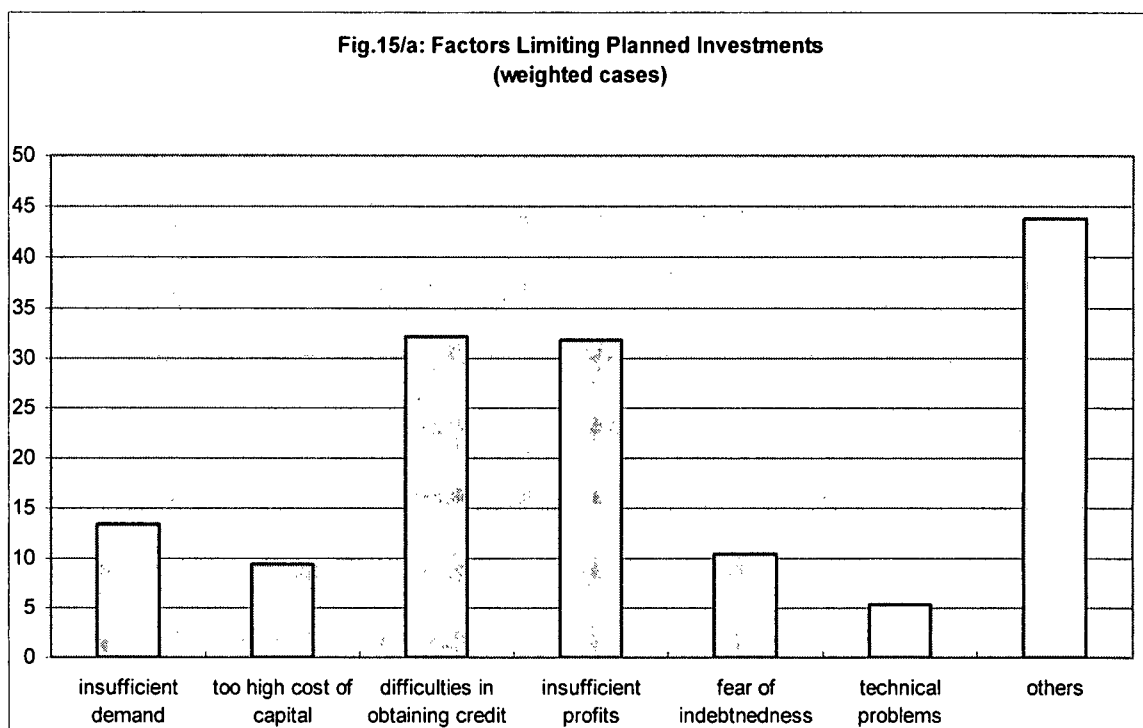
Q.16: Assessment of present business situation

Question 16 is also one of the most important questions. This is because it is directly related with the confidence and sentiment of the entrepreneurs. Table 16 and figure 16 show that majority of companies (more then 51) estimate their present business situation is in the recession. But in terms of size this answer represents about 25% of the total enterprise volume. In other words this represent small business. There are 21 enterprises, which think their business is going up and it represents 34% of the total.

Table 16: Assessment of present business situation

	Frequency	Percent	Cumulative Percent	Weighted cases
No answers	3	2,7	2,7	0,4
Up	21	18,9	21,6	33,9
Unchanged	36	32,4	54,1	41,2
Down	51	45,9	100,0	24,4
Total	111	100,0		100,0

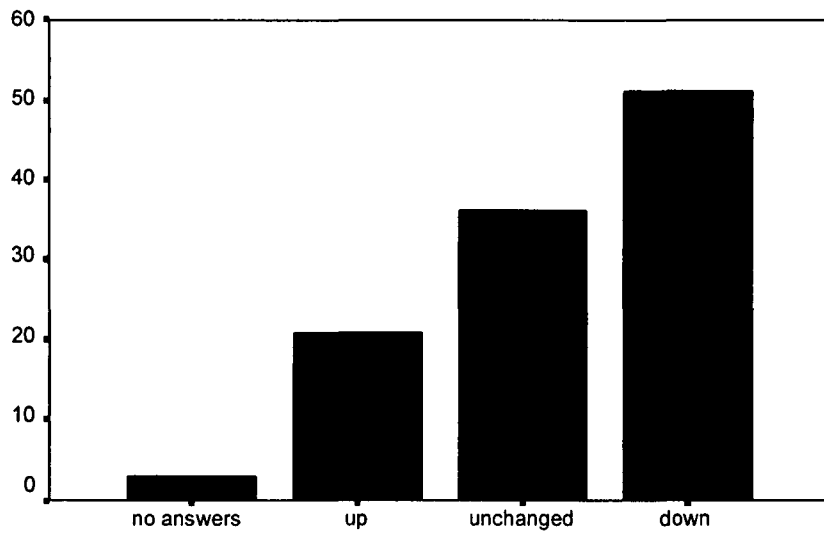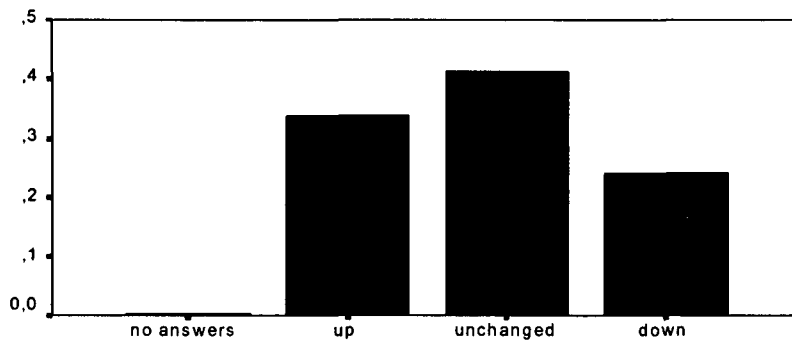Fig.16: Assessment of present business situation

Fig.16/a: Assessment of present business situation (weighted)

Q.17: Expected business situation in six months ahead

Regarding the expectation related with the business situation in the next 6 months it can be said that mathematically the result of the positive questions with negative questions are in the same level about 42 enterprises in aggregation weighting is 50% of the total are convinced that business situation for next 6 months will remain in the

same level. However, as in other similar questions the optimism of the big companies in the industrial sector helps to keep the sentiment higher for the near future.

Table 17: Expected business situation 6 months ahead

	Frequency	Percent	Cumulative Percent	Weighted cases
No answers	5	4,5	4,5	5,7
Up	32	28,8	33,3	29,1
Unchanged	42	37,8	71,2	50,5
Down	32	28,8	100,0	14,7
Total	111	100,0		100,0

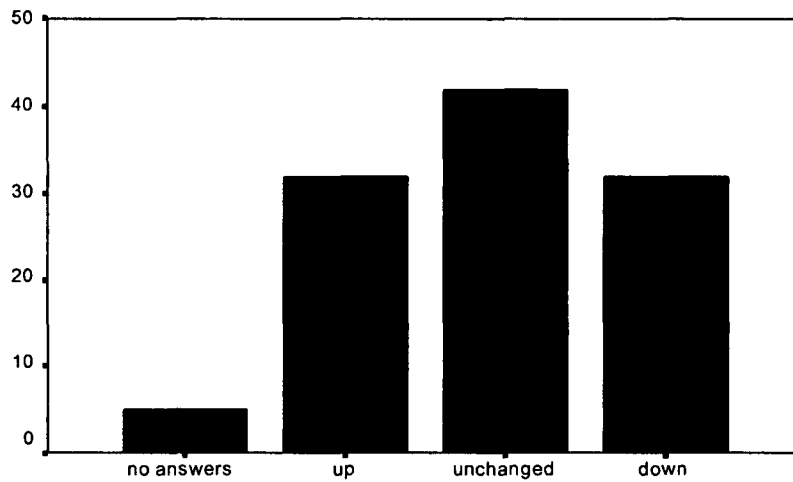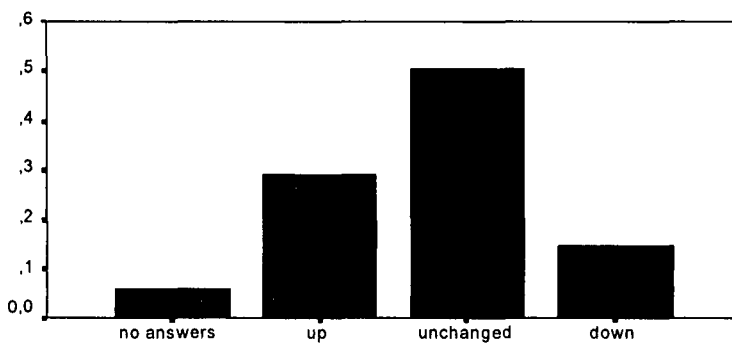Fig.17: Expected business situation 6 months ahead

Fig.17/a: Expected business situation 6 months ahead (weighted)

Scope and limitation

In a relatively short period of time the CRD's staff undertook for the first time in Albania two complex surveys on business development in industrial sector. As the first experience in this field we identified the following issues, which we consider as fuelled some limitations to this project.

- The relatively small size of sample enterprise (about 60 for the first one and 135 for the second). This is related to the cost of the project as well as time limitation. For the second survey we extended the geography of our study with Vlora (together with Tirana and Durresi – both urban and rural areas),
- The outdated information about enterprises operating in the sector of industry, provided by National Register; which created extra difficulty for the staff
- Difficulties in contacting enterprises. Over 90% of the enterprises had not registered their phone numbers on the phone book or had no access to phone service at all.
- Due to lack of complete data about each stratum of the sector of industry and the relatively small number of enterprises surveyed, the statistical error was not calculated and previous studies were not considered as our project is the first one that used a methodology relying on EC standards.

Conclusions

This output is the result of an extensive study and preparatory work of CRD's staff. The basic criteria in assigning the methodology for conducting a business survey on industrial survey for Albania was related to the following factors:

1. The business survey must be conducted based on internationally recognised scientific approach. For that we approached those criteria recommended by European Commission.
2. Questionnaire must by applicable in Albania, so, it was necessary to adjust questions based on present condition in Albania.
3. The sample of the enterprises is chosen based on two key criteria: first must be representative and second, the cost efficiency of the survey. Based on current sample (with about 700 enterprises) and the average cost the total cost for conducting a full survey on industrial confidence survey is about US $ 30,000.
4. Business survey must serve in the future for the estimation of industrial confidence indicator.