The Impact Of The Covid-19 Pandemic Situation On The Risk Level Facing The Albanian SMEs (Case Study: Gjirokastra Region)

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Abstract

The COVID-19 pandemic situation that affected the whole globe, of course, also affected the economic, political, social and cultural life in Albania. This pandemic situation had a strong impact not only on changing the conditions of human relations, but also on changing doing business. In this context, Albanian SMEs should make continuous efforts to recognize the future risks they may face. In this paper, SMEs in the Gjirokastra region have been studied. The methodology used in this paper is based on data collection through a structured questionnaire and descriptive analysis of data collected from this questionnaire. At the end of this paper it turned out that due to the pandemic situation and its economic impact, Albanian SMEs are very attentive to changing conditions not only economic, but also social, legal, political, health. They are also carefully of the consequences that come from facing different risks due to changes in these conditions.

Key word: Albanian SMEs, financial risk, business risk, Covid-19, Gjirokastra

Introduction

The Covid-19 pandemic situation had its impact on economic, social, political, cultural, educational and health life in Albania, as well as in all other countries of the globe. According to
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the IMF (International Monetary Fund) per capita income in Albania during 2020 has decreased by 6.8%.\(^1\)

This decline was accompanied by a decline in the economic activity of most Small and Medium-sized Enterprises (SMEs). This decline in economic activity, which is accompanied by a decline in SME’s income and a decline in household income, is enabling SMEs to be more attentive to these changes and the risks arising from these changes.

In this context, factors such as the change in the daily life style of the consumer, such as the way of making purchases, the way of consuming leisure time, restrictions on spending on luxury goods, etc., have brought as a necessity a reflection of how SMEs will operate in the future. This is inextricably linked to how and to what extent Albanian SMEs will be able to pay attention to the potential risks they may face in the future.

In Albania, SMEs are one of the largest business groups. They constitute about 99% of the businesses operating in Albania. According to INSTAT, the largest share of SMEs is in the trade sector with 42%, followed by the services sector with 21%. The lowest specific weight has the sector of extractive industry, water and waste management with 0.6% each. About 79.8% of employees in Albania are employed in the SME group. The largest number of employees is in the trade sector with 29%, followed by the other services sector with 19.7% and the construction sector with 18.5%.\(^2\).

In this study, the classification of businesses into micro-enterprises, small and medium enterprises is based on the legal definition in the Republic of Albania. According to Law no. 8957, dated 17.10.2002 "On Small and Medium Enterprises", as amended, is given the definition of what is called micro-enterprise, small enterprise and medium enterprise. Micro-enterprises are those enterprises, which employ up to 9 employees and their annual economic turnover does not exceed the amount of 10 million ALL. Small enterprises are those enterprises which employ from 10 to 49 employees and have a total turnover or annual balance sheet of less than 50 million ALL. Medium enterprises are those enterprises which employ from 50 to 249 employees, have a business

\(^1\) https://www.imf.org/en/Publications/WEO/weo-database/2021/April/weo-report?c=914,913,963,918,960,944,921,943,962,964,968,922,942,186,926,&s=NGDPDPC,&sy=2019&ey=2020&sm=0&scsm=1&ssc=0&ssd=1&ssc=0&sic=0&sort=country&ds=_&br=1

\(^2\) http://www.instat.gov.al/al/temat/industria-tregtia-dhe-sh%C3%ABrbimet/statistikat-strukturore-t%C3%AB-ng%C3%ABrmarrjeve-ekonomike/publikimet/2020/statistika-mbi-nd%C3%ABrmarrjet-e-vogla-dhe-t%C3%AB-mesme-2018/
figure or total annual balance of up to 250 million ALL.

This paper is based on SMEs that extend their activity in the Gjirokastra region. This region is one of the smallest regions of Albania, and the impact of SMEs in this region is extremely high. Increasing or decreasing the number of SMEs in this region has a very high impact because it is directly related to the number of employees, the income of the individual, the level of employment, local taxes and fees, etc. About 5212 SMEs are active in the Gjirokastra region.³

Purpose of The Study

The main purpose of this paper is to assess the opportunities that Albanian SMEs have for recognizing the new risks that have arisen as a result of the pandemic situation Covid-19 that Albania experienced. This arises as a result of economic impacts and economic and financial situations sometimes unforeseen by SMEs.

Research Methodology

For the successful realization of this paper we rely on the descriptive analysis of primary and secondary data. Primary data were obtained directly from the population through interviews with the help of a structured questionnaire, which was designed to collect mainly qualitative but also quantitative data which are directly related to qualitative data.

Secondary data are provided using contemporary literature, which supports the work theoretically, with official data from Albanian institutions, as well as from other sources according to the needs of the study.

In the Gjirokastra region, around 5212 economic units of the SME group extend their activity. These businesses operate in various fields such as retail, wholesale, construction, food and industrial products, cafes, hotels and tourism, etc. The study was conducted by analyzing a

³ [http://www.instat.gov.al/al/temat/industria-tregtia-dhe-sh%C3%ABrbimet/regjistri-statistikor-ind%C3%ABrmarrjeve/#tab2](http://www.instat.gov.al/al/temat/industria-tregtia-dhe-sh%C3%ABrbimet/regjistri-statistikor-ind%C3%ABrmarrjeve/#tab2)
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significant number of businesses in the Gjirokastra region, which are in the category of micro, small and medium enterprises.

Limitations

Due to the economic, social and daily life constraints resulting from the pandemic situation, it is understood that this paper also had its limitations, the lack of which would probably have contributed to even more positive or adjusted results than those obtained from work. These limitations have increased the level of difficulty in collecting and processing data. But what are these limitations? In summary, these restrictions are as follows:

- Difficulty in obtaining accurate quantitative data from official Albanian institutions. Albanian official institutions during the pandemic period have worked with reduced capacity, limiting the possibility of collecting appropriate official statistical information.
- Qualitative data are provided by the questionnaires. In some cases, respondents were reluctant to answer all of the questionnaire questions. In some cases the respondents were not able to answer the questionnaire arguing that the information required had to be answered by a part-time employee who was not on the business premises.
- In some cases the respondents did not have information about the concepts required for the answer to the questionnaire, or they often confused these concepts and therefore needed the help of the interviewer to clarify these concepts.
- The Covid-19 pandemic situation created great opportunities for data concealment by SMEs. This further increased the economic and financial informality in the environment in which Albanian SMEs operate.

Literature Review

According to the European Commission (2019) SMEs are the main artery of the European economy, as they constitute about 99.8% of businesses and employ about 2/3 of employees.4

4 The European Commission defines SMEs as firms with less than 250 employees and have an annual turnover of up to 50 million Euros, or a balance sheet of no more than 43 million
SMEs have a direct impact on increasing added value in a country's economy. According to Kano et al (2020) in recent decades the expansion of the growth of economic activity of SMEs and at the same time the decline of vertically integrated firms has led to an increase in the global value chain (GVCs).

The constant competition of European SMEs stems from their capacity to be as creative and innovative as possible. However, due to their economic and capital structure they suffer in terms of liquidity and profitability, compared to big business (European Commission 2019). But, according to Laufs and Schwens (2014), crises, such as the one we are experiencing due to the Covid-19 pandemic, are likely to have a tremendous effect on SMEs, confronting them with limited human, financial and technical compared to large firms (Martin et al, 2019).

But, on the other hand, SMEs are more flexible and convenient than large businesses because of their small size, simple capital structure and the flat hierarchical structure they have. But, despite these positive aspects, SMEs have difficulty returning to the conditions of their normal activity after the crisis and pandemic situations.

In the pandemic situation COVID-19 SMEs faced many risks, the level of which increased and became more threatening to the activity of SMEs. SMEs should therefore make efforts to identify and assess their risk during crises and pandemic situations. Risk identification should not only focus on existing risks and the current impact they have on the organization, but should also anticipate new potential risks that the organization may face in the future (Williams et al, 1998 and Tchankova, 2002). According to Bowden et al (2001) each identified risk should be recorded in a comprehensive risk register in detail as follows;

- A brief description of the identified risk
- Causes and possible consequences of the risk if it were to be realized
- Main activities where risk could occur
- An assessment of the probability of occurrence and the expected impact

The risk identification process is an integral part of the risk management process (risk management - RM). This process is very important and vital for SMEs because as the complexity of products and services increases, so does the exposure of SME activity to risk (Faisal, 2016).
SMEs, unlike large businesses (large enterprises), suffer from numerous financial problems and lack of human capital. Precisely due to numerous financial problems and lack of quality human capital, SMEs face difficulties in applying or using risk management tools (Brustbauer, 2016). Instruments used by large businesses are usually inappropriate or impossible for SMEs to use because they can be very expensive or very complex (Pereira et al., 2015).

SMEs are reluctant and skeptical to implement sound risk management strategies (Florio & Leoni, 2017), despite many studies showing that one of the main reasons for the failure and bankruptcy of SMEs is poor management and poor risk, lack of planning of the risk identification and assessment process (Sipa 2018, Wasiluk 2017).

Risk identification and management practices should be simple and easily adapted to SMEs' operational plans in order to improve the performance of their business (He & Lu, 2018). SMEs have understood this goal and they have increased their awareness regarding risk identification and management, considering this process as very important in their activity (Sipa 2018).

Entities should pay attention to the risk identification process because risk cannot be managed and controlled if it is not identified (Valsamakis et al., 2000). Risk identification provides the entity with an effective risk management process in relation to unknown sources that cause unpredictable events and outcomes (Williams Jr et al., 1998).

Referring to Valsamakis et al (2000: 25-26), it is said that the risk identification process should be considered as one of the most important activities during the risk management process, and should be carried out in a systematic way. Risk identification techniques should be such as to enable the collection of information about:

a) **Risk sources.** The first step in the risk identification process is to identify the sources of risk. Source of risk are those elements of the environment where SMEs operate through which flow positive or negative consequences or results. In this context, the organization should have all the skills and opportunities to identify all possible types of risk. All elements of the SME environment with potential positive or negative consequences or outcomes can be included as sources of risk. So the focus of the risk identification process

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is the ability and ability to identify all possible types of risk. Referring to Williams Jr et al (1998: 66-68) and Tchankova (2002: 293-295) potential sources of risk are considered to include;

b) **Social environment.** In the social environment according to these authors will be included the process of employee motivation, employee qualification, recruitment and selection, setting norms and culture of the organization in general. The social environment is identified as a source of risk because in each of the above mentioned links there is a possibility that misunderstandings, errors arise and as a result a potential risk appears.

c) **Physical environment.** The physical environment includes all the physical infrastructure of an organization such as the physical space of the offices, the location of the machinery, the age of the machinery and equipment, the humidity in the workplace, the ventilation system, the geographical position of the business location. Each of the above elements is a potential source of risk. N.q.s. used machinery is very old and physically depreciated, this fact certainly poses a potential risk to the poor and timely production of goods or material goods.

d) **Political environment.** SMEs are heavily influenced by the country's political environment. As an element of the political environment we can mention the influence of fiscal or monetary policy. Both of these types of policies have a great impact and importance in the continuation of the activity of SMEs. So, SMEs should pay close attention to these policies, because otherwise it would lead them to bankruptcy and legal confrontation with the state.

e) **Legal environment.** The legal environment is another potential source of risk. The activity of SMEs in general, and Albanian ones in particular, is regulated by a legal framework. Within this legal framework there are also various legal spaces where their use or non-use may constitute a potential source of risk for this business group.

f) **Operational environment.** The operational environment of SMEs includes elements related to their production or operating activity. As such can be mentioned the cases when the productive activity of SMEs can harm the health of its employees. This is a risk that needs to be given considerable attention because not only will it have financial consequences, but it can lead to opposition to the activity by the community concerned and even to its bankruptcy.
g) **Economic environment.** The economic environment includes elements such as unemployment, inflation, etc. SMEs must have clear knowledge, complete and accurate information about these economic indicators of the country. Each of these indicators is a potential source of risk for SMEs.

h) **Risk factors.** This group includes conditions that increase the possibility of losing and the consequences of the loss are observed in some business environments such as a wrong strategy design, goal setting, which increase business losses.

i) **Risks.** The term risk means any possible future event that has a negative impact on the activity of the entity. So the characteristic of risk is only the negative impact it has (Tchankova, 2002).

j) **Exposures to risk.** In this case, the information gathered relates to the financial condition and business objectives, which may be affected by a potential loss or gain [(Williams Jr et al 1998) and (Tchankova, 2002)].

**Data Analysis**

In order to successfully carry out this work, 350 SME businesses in the Gjirokastra region were interviewed. These businesses carry out economic activity according to the areas presented in table 1.

**Table 1. SME activity**

<table>
<thead>
<tr>
<th>Total number of SMEs</th>
<th>Manufacturing</th>
<th>Construction</th>
<th>Commerce</th>
<th>Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>350</td>
<td>66</td>
<td>43</td>
<td>146</td>
<td>95</td>
</tr>
<tr>
<td>100%</td>
<td>18.85%</td>
<td>12.29%</td>
<td>41.72%</td>
<td>27.14%</td>
</tr>
</tbody>
</table>

*Source: Author, 2021*
From the beginning of March 2020 onwards, Albania has faced a pandemic situation and limitations in social, economic, cultural life, etc. These restrictions have also affected the activity of SMEs.

During this period, SMEs have faced restrictions on the movement of goods, declining revenues, declining number of customers, difficulties in finding raw materials and timely supply, difficulties in finding necessary human capital, with difficulty in financing their activities, with difficulty in settling liabilities to banks and third parties, etc.

All these difficulties have also increased the level of risks directly related to these. Therefore, to analyze these types of risks, which have significantly changed their level, a structured questionnaire was designed for SMEs using the Likert Scale with 5 levels to evaluate each question. So, Albanian SMEs had to answer the questions of the questionnaire by evaluating each question from "1 - Not at all" to "5 - Extremely much".

Businesses were initially provided with a long list of almost all types of risks according to Table 2, from which SMEs selected the risks that were claimed to be known and their impact could be assessed.

### Table 2. Determining the risk category for SMEs

<table>
<thead>
<tr>
<th>Type of risk</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial risk</td>
<td>This category includes risk arising from cash outflows, budgeting, tax liability, debit and credit relations with third parties, all other financial information.</td>
</tr>
<tr>
<td>Organizational risk</td>
<td>This category includes risks related to the impact of the culture of the organization, the structure of human relations within the business, the acceptance of the norms of the organization by employees.</td>
</tr>
<tr>
<td>Legal risk</td>
<td>This category includes risk related to all legal requirements that the business must meet such as production standards, legal employment contracts, legislation.</td>
</tr>
<tr>
<td>Category</td>
<td>Description</td>
</tr>
<tr>
<td>-------------------</td>
<td>--------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Operational risk</td>
<td>This category includes the risk associated with operational, manufacturing, planning activities and the support required within business operations to result in a successful development of product distribution and production.</td>
</tr>
<tr>
<td>Commercial risk</td>
<td>This category includes the risk associated with the place of trading, business growth, diversification of activity and commercial success. This relates to the commercial viability of the product or service until the expansion of commercial activity.</td>
</tr>
<tr>
<td>Strategic risk</td>
<td>Included in this category is the risk associated with processes such as planning, goal setting, mission and objectives aimed at maintaining and growing the business.</td>
</tr>
<tr>
<td>Defense risk</td>
<td>This category includes all risks associated with keeping business promises, safeguarding and securing assets and people, strengthening information retention, intellectual property and technology.</td>
</tr>
<tr>
<td>Project risk</td>
<td>Included in this category are risks related to the management of equipment, resources, technology and people involved in project management, whether these are internal operational projects related to business development and so-called external projects such as those related to with customers.</td>
</tr>
<tr>
<td>Technological risk</td>
<td>Included in this category is the risk associated with the implementation, management, maintenance and upgrade of the technology used. This means recognizing the need for technology and its cost as part of a business development strategy.</td>
</tr>
<tr>
<td>Business risk</td>
<td>This category includes risk related to sales volume, selling price, input costs, general economic climate.</td>
</tr>
<tr>
<td>Risk of human capital</td>
<td>This category includes the risk related to human capital, which extends in different directions within the business such as that of staff recruitment, compliance of workplace requirements with</td>
</tr>
</tbody>
</table>
skills and abilities of the employee, implementation of the code of ethics, ability to cooperate, etc.

| Political risk | Included in this category is the risk associated with those cases where the outcome of the investment may be significantly affected as a result of political change or political instability of the country. |

*Source: European Agency for Safety and Helath Work, 2010*

The results of the questionnaire showed that the 5 most rated risks were "Business risk" with 24%, "Financial risk" with 20%, "Technological risk" with 16%, "Human capital risk" with 10% and "Political risk" by 8%, while other risks had very low ratings and were not taken into account, Graph 1.

*Source: Author, 2021*

Since SMEs rated these risks as the most important, businesses were then asked to rate using the Likert scale from 1 to 5, namely these risks: Business Risk, Financial Risk, Technological Risk, Human Capital Risk and Political Risk.

The analysis of the questionnaire showed that 51% of Albanian SMEs had high preferences to identify Business Risk, 31% for Financial Risk, 9% for Technological Risk, 6% for Human Capital Risk and 3% for Political Risk, graph 2.
In addition to the variables, several other questions were drafted, which give a clearer picture of the situation in which Albanian SMEs are. These questions tend to provide answers to the preferences that SMEs may have for various elements which can serve as sources of risk or as an assessment of risky situations. For this reason there is a need to interpret them through graphs or tables.

Businesses were asked "**Which situation is more important to identify and assess?**". From the given answers it resulted that 48% of the interviewed SMEs preferred to evaluate the solvency as the most important financial situation, 34% preferred to evaluate as important the debt-to-capital ratio, 7% preferred to evaluate as debt-to-assets ratio, 5% preferred to rate the liquidity situation as important and 6% preferred to rate the level of customer collection as important, Graph 3. So SMEs would prefer to have good skills in order not to be put in financial difficulties, as well as to maintain good debt-to-equity ratios by not attempting excessive uses of debt and high growth of this ratio.
Another question was "Which element is most important to identify as a source of risk?". From the answers given it resulted that 16% of the interviewed SMEs preferred the social environment as a potential source of risk, 19% preferred the physical environment as a potential source of risk, 18% preferred the political environment as a potential source of risk, 21% have preferred the technological environment as a potential source of risk and 26% have preferred the economic environment as a potential source of risk, Graph 4. In conclusion it can be said that SMEs assess as potential sources of risk all environments taken in the analysis (1) environment economic including unemployment rate, inflation, exchange rates, etc., (2) social environment including the level of employee satisfaction, their motivation, (3) physical environment including physical conditions where the activity is performed or worked, (4) environment policy involving frequent changes in laws and (5) the technological environment involving changes in machinery and equipment.

Source: Questionnaire distributed to SMEs in the Gjirokastra region, Author 2021.
SMEs were also asked, "What data have you stored and do you care about?" where it turned out that 63% of the interviewed SMEs prefer to preserve and attach importance to financial data, 13% prefer to preserve and attach importance to economic data, 13% prefer to preserve and attach importance to social data, 7% prefer to preserve and pay attention to fiscal data and 4% prefer to store and pay attention to technological data, graph 5. In conclusion it can be said that for SMEs are very important financial data, which have also received the largest percentage of responses, about 72%.

![Graph 5. Significance of the data](image)

*Source: Questionnaire distributed to SMEs in the Gjirokastra region, Author 2021.*

**Conclusions and Recommendations**

In conclusion, it can be said that the COVID-19 pandemic situation that Albania is going through has affected Albanian SMEs in all areas of their activity and the level of risk they face. Albanian SMEs are aware in terms of recognizing, identifying and evaluating potential sources of risk and its level. The paper showed that:

- Albanian SMEs are able to assess and rank according to importance the risks they face, where the result that the most important risks were "Business risk" with 24%, "Financial
risk" with 20%, "Technological risk" with 16 %, “Human capital risk” with 10% and “Political risk” with 8%.

✓ Albanian SMEs prefer to have good solvency in order not to be put in financial difficulties, as well as to maintain good debt to equity ratios without attempting excessive uses of debt and high growth of this ratio.

✓ Albanian SMEs assess as potential sources of risk all the environments taken in the analysis (1) the economic environment which includes the unemployment rate, inflation, exchange rates, etc., (2) the social environment which includes the level of employee satisfaction, their motivation, (3) the physical environment where the physical conditions under which the activity is performed or operated include, (4) the political environment where frequent changes in laws are included, and (5) the technological environment where changes in machinery and equipment are included.

✓ Albanian SMEs attach great importance to the preservation of statistical data, especially financial, economic, fiscal and technological data.

References


