

Digital Transformation of SMEs in Albania: The Case for the Value Creation Model

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Abstract: Adopting digital technologies has become necessary for SMEs if they are to succeed in the competitive and integrated global market, and that is true for the SMEs in Albania, too. However, investing in digital technologies would be a burden to them since they are very small in size and resources. Albania has almost 119 000 active enterprises and roughly 110 000 of them have less than 10 employees. Identifying the right model for the SMEs in Albania — the value creation model — is the purpose of this paper towards finding the incentives for businesses to invest in digital technologies.

Key words: digital technologies, value creation model, SMEs in Albania

JEL: M15, M21

Introduction

The value creation model is the right model for the small and medium enterprises (SMEs) in Albania to feel incentivized and adopt digital technologies. In fact, adopting digital technologies has now become necessary for all types of businesses all over the world, and this is very much true for Albanian enterprises, too. However, the so-called digital transformation is a costly undertaking, especially for the SMEs in Albania because their financial resources for investment purposes and their human resources are very limited.

However, despite the difficulties, the costs of the SMEs in Albania for being left behind in this age of digital transformations are far greater. This is the main reason for this paper to dwell on the various models being applied today for the digital transformation of SMEs and which one of them suits best the Albanian SMEs.

Definitions of terms used

In order to clearly understand the topic discussed and to avoid any misunderstandings regarding the concepts involved, the following section offers the definition of the SMEs in the Albanian context, as well as the definition of the digital technologies enabling the digital transformation of SMEs.

At the end of 2021, Albania had a total of 181 549 business entities, where 118 627 enterprises conduct their activity in the areas of trade, services, manufacturing and other industrial sectors, and 62 922 are agricultural enterprises (Institute of Statistics, 2022, p. 9). By virtue of Article 4(6) of the Law 43/2002 “On the development of micro, small and medium enterprises”, micro enterprises are those business entities employing up to nine persons, small enterprises are those that employ from 10 to 49 persons, and medium

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enterprises are those business entities employing from 50 to 249 persons.

According to the data collected in Albania, 109 806 enterprises employ up to nine persons, thus being categorized as micro enterprises, whereas the number of small enterprises that employ from 10 to 49 persons stands at 6 862 (Institute of Statistics, 2022, p. 25). In so far as the number of medium enterprises is concerned, the data is still unclear, because the Institute of Statistics of Albania does not yet differentiate among the enterprises employing more than 50 persons. The Assembly of Albania approved the Law 43/2002 “On the development of micro, small and medium enterprises” in 21 April 2022 and its implications on the data collected and published by the Institute of Statistics of Albanian will appear only during the next year.

However, for the sake of statistics, Albania has 1 959 business entities that employ 50 or more persons.

The Law 43/2002 “On the development of micro, small and medium enterprises” was

Table 1: Comparison between the definitions of SMEs in Albania and the European Union

Enterprises	Albania		European Union	
	Number of employees	Annual turnover not exceeding	Number of employees	Annual turnover not exceeding
Micro enterprises	up to 9	0.09 million euros	up to 9	2 million euros
Small enterprises	from 10 to 49	0.42 million euros	from 10 to 49	10 million euros
Medium enterprises	from 50 to 249	2.10 million euros	from 50 to 249	50 million euros

Source: Institute of Statistics, 2022; European Commission, 2005.

The impact of digital technologies on the ways business is conducted is so great that it has been compared to a full-fledged industrial revolution (The Economist, 2012). Many studies agree that the adoption of digital technologies has started some time in 2000 or even earlier, but the real transformation has been happening during the last 10 years. The COVID-19 pandemic only served to spread digitalization even faster and further.

approved in order to harmonize the definition of SMEs that Albania uses with that used by the European Union (EU), which now are almost the same (European Commission, 2005). The definitions are the same in so far as the number of employees is concerned, but differ as to the annual turnover. In the EU, the annual turnover of SMEs must not exceed 50 million euros, whereas in Albania that limit stand at almost 2.1 million euros.

Competitive positioning is the process of conveying the company in an already crowded field of competitors, and the strategy for this is the guide to how to do it. With digital marketing, all this can be done efficiently and cost-effectively, using different tools. The development and implementation of this strategy is a process of several steps that begins with an understanding of this, which is unique in a company and ends with telling the world how this uniqueness will benefit potential customers. **(Frederiksen, L. 2017)**

The digital transformation of the way business is conducted is felt in many levels. Digitalization involves (i) the use of different applications in order to better connect to the markets and clients, and to better integrate all business operations and processes, (ii) the use of software-based tools for enterprise resource planning in order to better integrate the flow of information and enhance the efficiency of planning and coordination processes, (ii) the use of radio frequency identification

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technologies in order to improve the efficiency of the production, communication and control processes, (iv) the use of software-based tools in order to achieve better and more efficient customer relationship management and supply chain management, (v) the adoption of cloud computing in order to fully utilize all the capacities offered by various information technologies at hand, (vi) the use of different social media platforms in order to increase visibility and enhance customer base, for marketing and image management purposes, and to communicate and receive feedback regarding new products or services, (vii) the application of e-commerce practices in order to reach to greater customer or supplier base (OECD, 2021, p. 22).

The scope of application and the types of digital technologies are defined along the same lines by many other studies (Andrews, Nicoletti and Timiliotis, 2018; Haller and Lyons, 2015; OECD, 2019).

Literature review

Digital transformation of the ways business is managed and conducted in the context of Albanian SMEs is a late starter, therefore the studies carried out regarding this matter are very few and mainly confined to e-commerce. On the other hand, the studies conducted at world level are numerous and touch on all aspect of the digital transformation of SMEs.

However, SMEs in Albania are at the very beginning of the digital transformation process and the very first thing they need to do is to manage this process. Earley (2014, p. 58) is cristal clear on the importance of managing the digital transformation process: 'The challenge isn't just to recognize innovative technology but also to apply it to your existing business model. In some cases, this requires breaking the business model and coming up with an entirely new way of doing business.'

This is where the Albanian SMEs face the greater challenge, regarding the approach to implement the digital technologies. The world

experience has produced many models to be followed.

Poon and Swatman (1999), Martin and Matlay (2001) and Willcocks and Sauer (2000) propose the *integration-based model*, which focuses mainly on adopting the digital technologies with the aim of integrating the internal and external systems of a business entity. This model aims to drive SMEs to use the Internet in order to integrate their internal and external operations and processes.

On the other hand, Chaston et al (2001) and Burgess, Sellitto and Wenn (2005) propose the *customer-based model*. Through this model, SMEs may adopt the e-commerce practices only. In other words, this model focuses only on communicating with the customers and building an interactive website for the customers to use for viewing products or services, selecting them and even purchasing them.

Rao, Metts and Mora Monge (2003) and Daniel and Wilson (2002) have come up with the *interaction-based model*. In this model, the digital technologies supports the interaction of various internal and external actors having an interest in the particular SME.

The three models briefly discussed above are the main models covering almost everything in so far the adoption of digital technologies by SMEs is concerned. The integration-based model connects the internal and external systems of a business, while leaving the systems themselves unchanged, whereas the customer-based model is focused on adopting and using the digital technologies only to exploit the benefits of online sales or e-commerce. The third model calls for a more thorough and broader adoption of digital technologies since it assists the interaction of all actors, internal and external. If this model is applied, an SME would have digitalized almost all its operations, from communication and production to management and strategic planning.

However, compared to the above three models, which are rather fixed in so far as their scope of application is concerned, this paper proposed a more loose and needs-based model, which we have called the *value creation model*. As per this model, SMEs may adopt and apply digital technologies only in those sectors where they see the greater benefit. Van Alstyne and Parker (2021), Ryan (2020) and Wertz (2020) do not see digital transformation as an objective per se, but as a means to create more value by either lowering the costs or increasing sales.

Discussion: The cost of digitalization and value creation model

It has been proven that digital transformation leads to lower operating costs and increased profits, and there is no denying that SMEs would want join this revolution. This is very much true for the Albanian SMEs also. However, the investments needed for the digital transformation are sometimes steep for the Albanian SMEs.

The SMEs in Albania are very small compared to their counterparts in the European Union countries or other developed countries of the world. Looking at the definitions of SMEs that Albanian and the European Union use, they are categorized by the same number of employees. For instance, a medium enterprise in Albania and in the European Union have from 10 to 49 employees, but their resources are very much different. A medium enterprise in the European Union has an annual turnover of up to 10 million euros, where a medium enterprise in Albanian has an annual turnover of up to 0.42 million euros.

As much as it is needed to cope with the challenges of doing business in the 21st century, digital transformation is costly. The worldwide investments toward digital transformation of companies are expected to reach 2.3 trillion US dollars in 2023 (Shirer and Smith, 2019). This amount will represent

almost half of all investments made in technological renovations.

Albanian SMEs clearly lack all the financial and human resources needed to undertake the revolutionizing drive toward digitalization. Studies conducted in Albania show that 56 percent of all Albanian enterprises still compile their management reports manually, whereas 81 percent of them do not use digital technologies at all (Curraj, 2017). On the other hand, almost all SMEs in Albania are managed by their owners and, as Fuller-Love (2006) has pointed out, owner-managers have this tendency to favorably deal with digitalization only if there is a clear profit involved.

The value creation model of digitalization

The value creation model of adopting digital technologies is the best possible approach for the Albanian SMEs. They have very limited financial resources and therefore cannot undertake a full-scale digitalization of all their operations. On top of that, the major part of Albanian SMEs lack also the human expertise to deal with digitalization. Furthermore, taking into consideration the fact that Albanian SMEs are rather small compared their European Union counterparts, their general view is that they do not need many of the digital technologies (Curraj, 2017).

At the very foundation of the value creation model stands the value created by the digital technologies adopted. In other words, the SMEs would adopt only those digital technologies that give the best return on investment result. Therefore, Albanian SMEs would choose what they need most or what works best for them: social media platforms, e-commerce technologies, book-keeping software-based tools, etc.

By approaching digitalization this way, the Albanian SMEs would invest where they need it the most and where they stand to gain the most.

Conclusion

The purpose of this paper was not to discuss digital transformation or to highlight the benefits of SMEs in Albania for adopting digital technologies. This is why this paper did not elaborate in details what digitalization means for the way SMEs operate or to what extent digitalization lowers costs or increases profits. The purpose of this paper was to focus on the Albanian SMEs and identify the appropriate model for them to use in order to safely approach digitalization.

Looking at their size, financial resources and human expertise available, Albanian SMEs would be better if they choose to adopt only some parts or one particular part of the whole digitalization drive. The value created by the digitalization should serve as the measuring unit for the investments made to this end.

All in all, this is the best option. Albania has 118 627 active enterprises and 109 806 of them are micro enterprises. Not only 99 percent of Albanian enterprises fall into the category of SMEs, but most of them are very small. It is therefore the conclusion of this paper that they would not be able to embark on a full-scale digitalization process. Subsequently, apart from promoting a very opportunistic approach by choosing only those digital technologies that bring the best positive impact on revenues, this paper intends to serve also as the starting point of a wider debate in Albania pertaining further research on what digital technologies fit best to every type of business.

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