

# Interaction between family network and firm growth in Albania

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**Abstract:**

The objective of this paper is to give proof of the involvement of the family network on firm growth in a post-communist country using ordered response models. Based on a national fieldwork of 265 firms, the findings confirm the presence of the family network in business matters but its influence on firm growth is negative. Participation in business networks and/or receiving government subsidies was found having a positive impact on firm growth. The probit model provided better results compared to the binary logit and multinomial logit models.

**Keywords:**

Firm growth, Family network, Albania, Probit model

**JEL codes:**

L2, P3, Z1

## **I. Theoretical and empirical background of the research**

Family business studies do not provide one-sided conclusions mainly because there is no agreement on the measurement of the definition (ownership by kindred, management, employment of kindred etc.) and the measurements of the family firm growth (financial, accounting or economic performance). Colli (2003: p. 10) recognizes that ‘there has been a long debate on profitability [of family firms] because the field of research on the subject provides variable results’. Family business studies is mainly an empirical area, thus gives results on a case by case basis. The corporate performance branch of business studies starting with Demsetz (1983), shows that family firms do not abide by market rules: they are based on non-pecuniary benefits instead of profit maximization. The resource-based branch of business studies is inclusive of social network variables. In a 1995 study of 269 firms, Corbetta (1999: p. 366) shows that nearly 10 percent of shareholders were distant kin in the US whereas the proportion was of 15.4 percent in Italy. Kristiansen (2004) explains that the CEO’s social networks have a particular importance for business development in developing countries. He recognizes the role of the family as a safety net against a highly risky business environment and lengthy bureaucratic processes. Pertaining to the transaction cost branch of family business studies, Egbert (2009) continues the discussion emphasizing the cost-saver role that the family network plays for firms in developing countries.

In transition economies the channels through which business transactions are operated differ based on the country’s characteristics (Alpay et al., 2008; Gassie, 2008; Smallbone and Welter, 2009). Away from state ownership issues, the predominance of small firms by size and value-added in Albania since the collapse of communism (Ancona and Botta, 2002; INSTAT, 2008; Qirici and Dharmo, 2004; Xheneti, 2005) leads to the questioning of the traditional channels of firm growth (Civici, 2003; Hashi, 2001). Similarly to the situation in neighboring countries (Bartlett et al., 2002; Poutziouris et al., 1997) , family participation in firm growth has been evidenced as existent in Albania (Leka and Shkurti, 2010), as a replacement to market institutions. Family fosters trust, which fluidifies economic transactions and/or replaces market institutions (North, 1990; Weber and Parsons, 1947). Therefore, to understand firm growth, the family firm unit needs further extension (Anderson et al., 2005) to firms having received any kind of favor from kindred that regard business transactions. Only this way can the comparison between the performance of firms that have received help and others that have not, be effective.

Considering the level of development of financial markets and the limited ownership participation of foreign investors in Albania (Bitzenis and Nito, 2005), firm growth in this paper is defined as sales growth (Caca, 2010). Previous empirical studies have shown obstacles to small firm growth that concern the problematic business environment, i.e. access to funding, administrative procedures etc (Bitzenis and

Nito, 2005; Hashi, 2001; Hashi and Mladek, 2000; Muco and Sanfey, 2002; Muent et al., 2001). Despite the qualitative evidence, none of the studies has considered the impact of the family network as key to small firm growth in Albania. This paper assesses the importance of the family network in the growth of sales of Albanian businesses. Based on anthropological studies of the Albanian family organizational structure (Doja, 1999, 2000a, b; Doll, 2003), the family network is specifically identified as the patrilineal and matrilineal sides, not forgetting the family network accessed through marital alliances.

The influence of the family network is conceived as any favor, be it pecuniary or not, informational or of tangible nature, stemming from a member of the extended family network. The research questions that motivate this paper are twofold: how to quantify family participation, keeping in its lax definition, in business growth; how to qualify this impact in relation to other standard variables retained to measure firm growth and in relation to other social networks.

## II. Model building

### A. Model variables

The dependent variable is the growth rate of turnover. In the case of small firms, sales growth is more appropriate to represent firm growth (Brown et al., 2005; Major, 2008) than firm performance (Coleman, 2007) or profit (Mueller, 1986). This is particularly the case in developing countries where financial markets and accounting norms are in the process of being adopted. Sales growth is a subjective definition of the percentage growth of sales during the previous year as given by the firm's owner/manager. Studies show that subjective measurements of sales in precise amounts have discrepancies (Balnaves, 2001), particularly in developing countries. The variable is categorized into 6 categories: -0 to -50 percent, -51 to -100 percent, -101 to -150 percent, 0 to 50 percent, 51 to 100 percent, 101 to 150 percent.

Similarly to the factor groups explicated by Nichter and Goldmark (2009), small firm growth in this paper is explained by four groups of variables: individual entrepreneur's characteristics, firm characteristics as below, relational factors that include kindred and other social network's participation in business operations and factors related to the business environment such as firm location or sector of activity.

The *first* group of variables represents the gender, age and marital status of the owner/manager. Studies have shown that male gender is correlated to positive expectations for firm growth in developing countries (Terjesen and Szerb, 2008) as is young age and being married (Pistrui et al., 1997). The marital status of the business owner is to control for the intervention of kindred in business matters other than the spouse: the maternal uncle(s) as the representative of the 'milk' side of the lineage and the brother(s) in law would intervene if the person is married (Lévi-Strauss, 1967). The expectation on the influence of this variable on firm growth is positive in both cases as the person would use one or the other feminine lineages through their male 'representatives', be they married or single. The age of the owner is also considered to account for the positive impact of the use of business practices related to the communist era (Bandelj, 2008). The generation of people living in transition countries who experienced communism professionally is currently in their 50s. Having kept their networks, they can provide additional resources compared to younger generation businessmen. The business owner's birth place is to take into account his/her ethnic origin. In effect, current social networks are differently managed depending on the place where the person was born and spent his/her childhood: in the city or in rural areas. In addition, individuals seem to remain faithful to their initial social and ethnic environment<sup>2</sup>. In transition countries,

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<sup>2</sup> See the work of MCPHERSON, M., SMITH-LOVIN, L. & COOK, J. M. 2001. Birds of a feather: Homophily in Social Networks. *Annual Review of Sociology*, 27, 415.

being born in rural areas means a greater attachment to one's larger family, which is less the case in urban areas (Murphy, 2006). The education level of the business owner checks if the person has a degree or has followed courses in business matters (management, accounting, negotiation and marketing). This variable is to account for the positive impact of existing professional knowledge and human capital on firm growth (Aidis and Mickiewicz, 2006; Coleman, 2007; Lucas, 1988).

The *second* group contains firm characteristics. The number of employees is an important factor as it determines the productive capacity of the firm, particularly in the case of small firms (Major, 2008: p.1374). Gibrat's law of proportionate effect, which states that firm growth is independent from its size has proven inadequate in the short run (Bigsten and Gebreeyesus, 2007) but valid in the long run (Lotti et al., 2009). In other words, smaller firms are expected to have higher growth rates in the first years of operation and firm longevity does matter. Therefore, this variable is accompanied by business longevity: younger and smaller firms are expected to grow more than the others.

The *third* group includes variables representing the relational characteristics of the firm owner/manager. In this paper, we distinguish between the nuclear family (spouse and children), the kinship atom (the maternal uncle and/or the brother(s) in law) and the extended family. The measurement of the family network's influence follows the specification of the various sales components, i.e. costs and revenue (Alexander and Alexander, 2000). Cost analysis highlights the following cost items: accountancy, employees, assets, funding, suppliers, legal affairs, administration. The revenue side includes distribution, customers, tax office, benchmarking and tenders. Involvement in professional associations and with peers is necessary to measure the difference between the peers network effect (Havnes and Senneseth, 2001) and the family network involvement in business matters (Niemela, 2004). The existence of a close friendship network as well as a peers network (Havnes and Senneseth, 2001) modifies the scope of the firm's operation level. Therefore, variables representing membership to a business association and access to friends for business purposes are included.

The *fourth* group of variables includes access to credit market is fundamental for firm growth (Beck et al., 2008; Demirgüç-Kunt and Maksimovic, 1996; Heshmati, 2001). Smaller firms have more difficulties to access funding due to the lack of sufficient collaterals. Access to the bank system represents a situation where the firm has had access to a bank loan during its recent activity. The regulatory framework, at the local or central level, is an important factor for firm growth. Either through subsidies or price monitoring, the government's influence cannot be neglected and is crucial for firm growth (Andreosso-O'Callaghan

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and Lenihan, 2006; Gassie and Hu, 2010). The geographical district is the location where the company has operated for 2009. In the metropolitan area (Tirane – Durres) or in the rest of the country, this captures the impact of the capital’s dynamism and resources on small businesses (Audretsch and Dohse, 2007). Thus firms operating in Tirana and Durres are expected to be more performing than the others. The sector of the activity is based on the self-declared sector of activity. The four sectors are agricultural activities, industrial activities, services and construction activities. The variable controls for the impact of the sector as SMEs are more prevalent in the tertiary sector compared to large firms (EUROSTAT, 2007, 2008, 2010).

### B. Methodology

Three econometric models are utilized: a probit, a binary logit and a multinomial logit model. The latter are best adapted to dichotomous data that is usually gathered when analyzing firm growth (Mueller, 1986), more particularly in the case of developing countries (Aidis and Mickiewicz, 2006; Robson and Obeng, 2008).

The continuous latent variable  $y_i^*$  cannot be observed. Instead,  $y_i$  with discrete values  $1, \dots, J$  is observed. Ordered dependent variables vary according to a latent process  $y^*$  given by:

$$y_i^* = x_i' \beta + u_i \quad i=1, \dots, n \quad (1)$$

with  $x_i' \beta$  the linear index of regressors and  $u_i$  random terms assumed to be independently and identically distributed following a standard normal distribution  $F(u)=\Phi(u)$  and  $u \sim N(0,1)$ .

The mechanism that accounts for the ordering information in  $y_i$  assumes that:

$$y_i = j \quad \text{if and only if } \kappa_{j-1} < y_i^* \leq \kappa_j \quad j=1, \dots, J \quad (2)$$

$J$  outcomes are obtained by dividing the real line, represented by  $y_i^*$ , into  $J$  intervals using  $J+1$  constant but unknown threshold parameters  $\kappa_0, \dots, \kappa_J$ . Thresholds are ascending such that  $\kappa_0 < \dots < \kappa_J$ . The observed dependent variable values are coded from 1 to  $J$  and account for the ordered dependent variable since higher values of  $y_i^*$  yield higher outcomes of  $y_i$ .

The probability that individual  $i$  chooses alternative  $j$  is written as:

$$P_{ij} = \Phi(\kappa_j - x_i' \beta) - \Phi(\kappa_{j-1} - x_i' \beta) \quad \text{where } j=1, \dots, J \quad (3)$$

$\Phi(\cdot)$  is the cumulative standard normal distribution.

When adapting to this study, the probabilities equation is valid for  $\kappa_0 = -\infty$  and  $\kappa_7 = +\infty$  and  $\kappa_1 < \kappa_2 < \kappa_3 < \kappa_4 < \kappa_5 < \kappa_6$  defined as six thresholds between which categorical responses are estimated.

The binary logit model with an identical latent process  $y^*$  defined above (Equation 1). The data follow the logistic distribution of probabilities:

$$P_i = \frac{\exp(\beta x'_i)}{1 + \exp(\beta x'_i)} \quad (4)$$

The last model is called multinomial logit. It encompasses the multiple categories of the original dependent variable in an unordered fashion. The latent process  $y^*$  defined above (Equation 1) is identical. The data follow the logistic distribution of probabilities:

$$P_{ij} = \frac{\exp(\beta_j x'_i)}{\sum_{r=1}^J \exp(x'_i \beta_r)} \quad \text{where } j=1, \dots, J \quad (5)$$

$J$  are the unordered outcomes of the dependent variable  $y_i$ . The identification restriction that is chosen arbitrarily  $\beta_1 = 0$  is such that the category  $j$  with the normalization  $\beta_1 = 0$  is the base category which provides the reference for all other points. The function adapted to this study becomes:

$$P_{ij} = \frac{\exp(\beta_j x'_i)}{1 + \sum_{r=2}^J \exp(x'_i \beta_r)} \quad \text{where } j=2, \dots, J \quad (6)$$

### C. Data

The National Business Registration Centre (QKR) of Albanian businesses, from which the business addresses were extracted, uses twelve districts. The choice of the districts was made based on an equal geographical representation of Albania. Districts geographically distant from each other were chosen for each of the Eastern and Western parts of Albania. The following nine districts were selected: Elbasan, Gjirokaster, Korce, Kukes, Lezhe, Shkoder, Tirane, Vlore. The total number of registered businesses as appearing on the National Business Registration Centre website accessed on the 25th of June 2010 is 176,895 (including duplicate registrations). Considering budgetary limitations, only cities were selected within the nine districts. After duplicates deletion, there are 80,293 firms in all 9 cities, i.e. more than half of the overall number of businesses. To compensate for non-response, which is a common issue in transition countries (Alasuutari et al., 2008), the targeted sample is 405 firms, i.e. 45 businesses for each city (Tables 1). The sample was then completed by the information entered in the QKR database, updated on the 26th of June 2010. The final questionnaire is presented in Annex 1. The answers are binary (yes/no) in order to code them as dummies. Of all 405 firms canvassed, 288 have answered the questions (Table 2). The rate of non-response is 29 percent. Some questionnaires have complete entries (Table 3).

The dependent variable, 'percentage growth' has 5 missing cases and 15 cases that do not have growth rates as they started operating in 2009. The sample is reduced to 268 cases. The variable 'Link with owner' has 229 missing cases (Table 4). A cross tabulation (Table 5) with the dependent variable shows that there are equal cases influencing positively (19) and negatively (19) and most managers are employees (17 over 38 cases) whose influence can be captured by the Employees variable. Therefore 'Link with owner' is deleted and the sample is down to 265 cases (Table 6).

Table 7 shows the distribution of the dependent variable. More than half of firms are in category 4 (0 to 50 percent sales growth) with the categories that include negative growth rates representing 39.7 percent of the sample. Most firms are in the services sector (Table 8) and nearly half are individual and half are of small size (Table 9). Tables 10 to 14 illustrate the respondents' characteristics which show that the models will analyze the determination of the factors of growth for micro and small firms operating in the services sector, led mainly by young married businessmen, born and living in urban areas, with no degree in business management.

### **III. Model testing and results analysis**

A first probit regression shows the poor model fitting statistics. As shown in Table 15, the predicted values have no extreme negative or positive categories. Therefore, the binary logit model is applied as it encompasses binary categories and remains an accurate latent variables and discrete data analysis framework. The binary logit model is based on the recoding of the variables. The dependent variable was recoded 0 for negative growth rates (106 cases) and 1 for positive growth rates (161 cases). The other variables were automatically recoded into binary (Table 16). 'Yes' answers are coded 1. Running the logit regression allows to correctly predicting in 70.9 percent of cases (Table 17). The Assay result tests demonstrate satisfactory accuracy of predicted probabilities with a ROC curve distanced from the diagonal (Figure 1) and a statistically significant area coefficient of 0.761 (Table 18).

The results of the regressions are in Table 19. The significant estimators coincide amongst all models with the probit model providing statistical significance for 9 (plus the four threshold coefficients) out of 29 independent variables. The ordered ranking inherent to the probit model justifies the emergence of additional significant coefficients, despite the poor results of the Nagelkerke R<sup>2</sup> (0.146) and the categorization of the predicted dependent. The multinomial model has better overall statistical results as the predicted dependent is correctly categorized in 74.70 percent of the cases compared to 70.9 percent of the cases for the binary logit model. The Nagelkerke R<sup>2</sup> and the Likelihood Ratio are higher for the multinomial model: 0.59 vs. 0.29 for the former and 185 vs. 65 and 75 for the latter. The ranking of the

dependent categories or the change of the baseline category does not seem to provide better results. The probit model will then be considered as the basis for the results' analysis. The sign of the parameters is the only interesting information as their absolute value is meaningless<sup>3</sup>.

Birthplace is not significant as most respondents live and operate firms in urban areas. Similarly, the education level (management degree obtained) is not significant as most of the sample respondents have identical levels of education that do not include a degree in business management. This is consistent with previous studies on the characteristics of Albanian SMEs (Bitzenis and Nito, 2005). It might be assumed that educated Albanians decide to migrate (Germenji and Swinnen, 2009; Papapanagos and Sanfey, 2001) while others stay and operate businesses as a survival strategy. The sector related variables are not significant as most firms are in the services sector (90 percent).

Young age (less than 50) variable coefficient is significant even though three quarters of the respondents are less than fifty years old. Young entrepreneurs, who have not experienced and utilized business practices during the communist era, are more performant. The micro sized firm variable is significant and negative as they are the ones to have more difficulties. As shown in Table 10, firms with one or more employees grow positively. Therefore, hiring additional employees does not hinder the growth process. Gibrat's law is not evidenced in this context. The coefficient of the variable 'kinship atom helped with finding capital' is significant and negative as the sources of capital might not be official, can be discontinuing (short-term) or the individuals ask for a reward, such as a returned favor. The kinship atom variable's negative and significant coefficients in relation to 'help with taxes' and 'help with benchmarking' (collect information in relation to competitors) confirm that participation of the members of the kinship atom does not have a positive impact on firm growth. The influence of the close family is also significantly negative. Participation to business associations has a positive impact on firm's growth. This finding, confirmed by the multinomial logit model, suggests that networking professionally allows creating more efficient and adapted connections. Receiving government subsidies has a significantly positive impact showing that government monitoring of business is more useful than informal capital sources. In parallel, 'access to a bank loan' has a significantly negative impact as banks charge high interest rates and request collaterals that can hardly be provided by micro and small businesses. The latter result is confirmed by the binary logit but contradicted by multinomial logit model.

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<sup>3</sup> The value of probit model parameters is arbitrarily scaled by the assumption  $\sigma=1$ .

#### IV. Model testing and results analysis

The most accurate model was the probit model which includes a latent ordering process. This model exhibited better results compared to the binary logit model or the multinomial logit model. The grouping of the dependent variable into positive and negative values did not provide sufficient significance. The unordered dependent variable with a complete set of categories did not provide probing results, independently of the category that was chosen as a baseline. Meanwhile, some of the probit model results were confirmed by the logit models. Consequently, the ordering of the sales growth is significant for the specification of its determinants and the thresholds that were assigned to the different value categories of the dependent variable matter for the model consistency. Hence, additional data and observations on the realistic values of turnover or sales as recorded by public (tax) institutions could provide exhaustive results.

The most important limitation of this survey is related to the sample population which had homogenous demographic and geographical characteristics, i.e. mainly male, married and urban population. Thus the control variables were of partial use<sup>4</sup> and national extrapolation is impossible<sup>5</sup>. A more heterogeneous sample with the inclusion of a population living in rural areas or respondents with additional heterogeneity in civil status would have allowed for capturing the peculiarities of the categories of the variables. For example, family networks might be more useful in rural areas as resources are not as accessible as in urban areas.

The major contribution of this research is that family structures participation in business operations does exist. This leads to conclude on the transitory phase of the Albanian economy that has still to find a more sustainable path of development. The main finding is that government subsidies, young age and membership in business associations do impact positively firm growth in urban areas in major Albanian cities. Beyond the measurement of the impact of the family network on firm growth in Albania, this paper gives the first steps towards the determination of typical groups of the macro-context factors that characterize socio-economic transition and socio-economic factors at the micro level that contribute to firm growth. They might be 4 categories of factors: economic factors that would represent the market economy, state factors that would represent post-communist structures, social capital factors that would

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<sup>4</sup> For example, birthplace of the owner/manager, if significant, would have controlled for different social structures than those in urban areas.

<sup>5</sup> As mentioned in Section II.A., the impossibility to obtain a list of all firms in Albania rendered the survey quite adventurous and leading to many stages of modifications in order to adapt to the data collection reality to the country. Data availability is still to become a priority for public institutions.

account for post-industrial economies and family network factors that represent alternatives to the aforementioned factors. But in order to create such a framework, the model needs to be rerun in other contexts with success, which remains to be done.

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**Tables**

(Source: Authors' design)

*Table 1.*

City	Number of firms	Number of firms in the sample	Sample Order
Elbasan	5640	45	125
Gjirokaster	2790	45	62
Korca	5337	45	119
Kukes	913	45	20
Lezhe	1571	45	34.91
Librazhd	1062	45	24
Shkoder	5714	45	127
Tirana	50000	45	1111
Vlore	7266	45	161

*Table 2.*

City	Number of firms canvassed	Number of questionnaires filled	Objective fulfillment (%)
Kukes	45	44	97.8
Shkoder	45	24	53.3
Tirane	45	13	28.9
Elbasan	45	31	68.9
Librazhd	45	30	66.7
Korce	45	43	95.6
Gjirokaster	45	30	66.7
Vlore	45	40	88.9
Lezhe	45	33	73.3
Total	405	288	71

Table 3.

	Descriptive Statistics										
	N	Range	Minimum	Maximum	Mean	Std. Deviation	Variance	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
Questionnaire No	288	287	1	288	144.50	83.283	6936.000	.000	.144	-1.200	.286
Function	288	1	1	2	1.15	.360	.130	1.940	.144	1.777	.286
Link with owner	42	5	1	6	2.55	1.452	2.107	1.257	.365	1.007	.717
Gender	288	1	1	2	1.25	.434	.188	1.161	.144	-657	.286
Age	288	1	1	2	1.26	.440	.193	1.098	.144	-801	.286
Birthplace	288	1	1	2	1.38	.486	.236	.504	.144	-1.758	.286
Marital status	288	1	1	2	1.90	.306	.094	-2.605	.144	4.820	.286
Management degree obtained	288	1	1	2	1.91	.292	.085	-2.802	.144	5.893	.286
Sector	285	3	1	4	3.00	.380	.144	-.813	.144	8.155	.288
Percentage growth	283	6	1	7	3.77	1.012	1.023	1.371	.145	3.580	.289
Number of employees	284	2	1	3	1.55	.559	.312	.355	.145	-.881	.288
Operating place	285	1	1	2	1.95	.224	.050	-4.028	.144	14.327	.288
Brother in law/maternal uncle helped with accounting	285	1	1	2	1.94	.231	.053	-3.877	.144	13.122	.288
Brother in law/maternal uncle helped with finding employees	285	1	1	2	1.82	.381	.145	-1.716	.144	.950	.288
Brother in law/maternal uncle are partners	285	1	1	2	1.95	.224	.050	-4.028	.144	14.327	.288
Brother in law/maternal uncle helped finding capital	285	1	1	2	1.90	.303	.092	-2.649	.144	5.050	.288
Brother in law/maternal uncle helped finding suppliers	285	1	1	2	1.80	.398	.158	-1.536	.144	.361	.288
Brother in law/maternal uncle helped with administrative issues	285	1	1	2	1.93	.262	.068	-3.281	.144	8.826	.288
Brother in law/maternal uncle helped finding customers	285	1	1	2	1.57	.496	.246	-.278	.144	-1.936	.288
Brother in law/maternal uncle helped selling	285	1	1	2	1.70	.460	.211	-.868	.144	-1.255	.288
Brother in law/maternal uncle helped with taxes	285	1	1	2	1.95	.217	.047	-4.194	.144	15.704	.288
Brother in law/maternal uncle helped benchmarking	285	1	1	2	1.85	.359	.129	-1.961	.144	1.859	.288
Brother in law/maternal uncle helped finding investment opportunities	285	1	1	2	1.93	.250	.062	-3.493	.144	10.272	.288
Friends helped with the business	285	1	1	2	1.28	.450	.203	.981	.144	-1.045	.288
Business association member	285	1	1	2	1.86	.344	.119	-2.125	.144	2.531	.288
Close family helped with the business	285	1	1	2	1.20	.401	.161	1.508	.144	.276	.288
Enlarged family (except the brother in law/maternal uncle) helped with business	285	1	1	2	1.55	.498	.248	-.206	.144	-1.972	.288
Received government subsidies for the business	285	1	1	2	1.98	.155	.024	-6.176	.144	36.396	.288
Contracted bank loan for the business	285	1	1	2	1.71	.453	.206	-.943	.144	-1.119	.288
Valid N (listwise)	41										

Table 4.

Case Processing Summary

	Cases					
	Valid		Missing		Total	
	N	Percent	N	Percent	N	Percent
Percentage growth * Link with owner	38	14.2%	229	85.8%	267	100.0%

Table 5.

Percentage growth \* Link with owner Crosstabulation

Count

		Link with owner						Total
		Spouse	Employee	Sibling/parent	Child	Maternal uncle/brother-in-law	Cousin	
Percentage growth	-50% to 0	4	7	4	2	1	1	19
	0% to 50%	3	10	4	0	0	2	19
Total		7	17	8	2	1	3	38

Table 6.

Descriptive Statistics										
	N	Minimum	Maximum	Mean	Std. Deviation	Variance	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
Questionnaire No	267	1	288	144.99	84.133	7078.289	-.014	.149	-1.221	.297
Function	267	1	2	1.15	.358	.128	1.974	.149	1.909	.297
Gender	267	1	2	1.25	.437	.191	1.133	.149	-.723	.297
Age	267	1	2	1.27	.447	.199	1.023	.149	-.962	.297
Birthplace	267	1	2	1.36	.482	.232	.572	.149	-1.686	.297
Marital status	267	1	2	1.91	.292	.085	-2.806	.149	5.916	.297
Management degree obtained	267	1	2	1.91	.292	.085	-2.806	.149	5.916	.297
Sector	266	1	4	2.99	.388	.151	-.850	.149	7.748	.298
Percentage growth	267	1	5	3.58	.664	.441	-.673	.149	.582	.297
Number of employees	266	1	3	1.56	.562	.316	.355	.149	-.854	.298
Operating place	267	1	2	1.96	.208	.043	-4.418	.149	17.648	.297
Brother in law/maternal uncle helped with accounting	267	1	2	1.95	.223	.050	-4.039	.149	14.418	.297
Brother in law/maternal uncle helped with finding employees	267	1	2	1.81	.391	.153	-1.612	.149	.604	.297
Brother in law/maternal uncle are partners	267	1	2	1.95	.216	.046	-4.218	.149	15.908	.297
Brother in law/maternal uncle helped finding capital	267	1	2	1.90	.302	.091	-2.661	.149	5.119	.297
Brother in law/maternal uncle helped finding suppliers	267	1	2	1.81	.397	.157	-1.550	.149	.406	.297
Brother in law/maternal uncle helped with administrative issues	267	1	2	1.92	.270	.073	-3.148	.149	7.971	.297
Brother in law/maternal uncle helped finding customers	267	1	2	1.57	.497	.247	-.266	.149	-1.944	.297
Brother in law/maternal uncle helped selling	267	1	2	1.70	.459	.211	-.880	.149	-1.235	.297
Brother in law/maternal uncle helped with taxes	267	1	2	1.95	.223	.050	-4.039	.149	14.418	.297
Brother in law/maternal uncle helped benchmarking	267	1	2	1.84	.365	.133	-1.893	.149	1.596	.297
Brother in law/maternal uncle helped finding investment opportunities	267	1	2	1.94	.245	.060	-3.594	.149	11.001	.297
Friends helped with the business	267	1	2	1.27	.447	.199	1.023	.149	-.962	.297
Business association member	267	1	2	1.86	.346	.120	-2.104	.149	2.445	.297
Close family helped with the business	267	1	2	1.20	.400	.160	1.520	.149	.314	.297
Enlarged family (except the brother in law/maternal uncle) helped with business	267	1	2	1.55	.499	.249	-.189	.149	-1.979	.297
Received government subsidies for the business	267	1	2	1.97	.160	.026	-5.964	.149	33.822	.297
Contracted bank loan for the business	267	1	2	1.70	.457	.209	-.899	.149	-1.200	.297
Valid N (listwise)	265									

Table 7. Frequency distribution of the dependent variable

	Frequency	Percent	Cumulative Percent
Valid -150% to -101%	1	.4	.4
-100% to -51%	14	5.2	5.6
-50% to 0	91	34.1	39.7
0% to 50%	152	56.9	96.6
51% to 100%	9	3.4	100.0
Total	267	100.0	

Table 8. Crosstabulations: dependent variable /sector of activity

		Sector				Total
		Agriculture	Industry	Services	Construction	
Percentage growth	-150% to -101%	0	0	1	0	1
	-100% to -51%	0	1	12	1	14
	-50% to 0	0	1	86	4	91
	0% to 50%	2	10	129	10	151
	51% to 100%	0	3	4	2	9
Total		2	15	232	17	266

Table 9.

Percentage growth \* Number of employees Crosstabulation

			Number of employees			Total
			1	2-9	10-49	
Percentage growth	-150% to -101%	Count	1	0	0	1
		% of Total	.4%	.0%	.0%	.4%
	-100% to -51%	Count	7	7	0	14
		% of Total	2.6%	2.6%	.0%	5.3%
	-50% to 0	Count	54	35	1	90
		% of Total	20.3%	13.2%	.4%	33.8%
	0% to 50%	Count	64	81	7	152
		% of Total	24.1%	30.5%	2.6%	57.1%
	51% to 100%	Count	1	7	1	9
		% of Total	.4%	2.6%	.4%	3.4%
Total		Count	127	130	9	266
		% of Total	47.7%	48.9%	3.4%	100.0%

Table 10.

Percentage growth \* Gender Crosstabulation

			Gender		Total
			Male	Female	
Percentage growth	-150% to -101%	Count	0	1	1
		% of Total	.0%	.4%	.4%
	-100% to -51%	Count	11	3	14
		% of Total	4.1%	1.1%	5.2%
	-50% to 0	Count	63	28	91
		% of Total	23.6%	10.5%	34.1%
	0% to 50%	Count	116	36	152
		% of Total	43.4%	13.5%	56.9%
	51% to 100%	Count	9	0	9
		% of Total	3.4%	.0%	3.4%
Total		Count	199	68	267
		% of Total	74.5%	25.5%	100.0%

Table 11.

Percentage growth \* Age Crosstabulation

			Age		Total
			- 50	+ 50	
Percentage growth	-150% to -101%	Count	0	1	1
		% of Total	.0%	.4%	.4%
	-100% to -51%	Count	6	8	14
		% of Total	2.2%	3.0%	5.2%
	-50% to 0	Count	68	23	91
		% of Total	25.5%	8.6%	34.1%
	0% to 50%	Count	116	36	152
		% of Total	43.4%	13.5%	56.9%
	51% to 100%	Count	4	5	9
		% of Total	1.5%	1.9%	3.4%
Total		Count	194	73	267
		% of Total	72.7%	27.3%	100.0%

Table 12.

Percentage growth \* Birthplace Crosstabulation

			Birthplace		Total
			Urban	Rural	
Percentage growth	-150% to -101%	Count	0	1	1
		% of Total	.0%	.4%	.4%
	-100% to -51%	Count	10	4	14
		% of Total	3.7%	1.5%	5.2%
	-50% to 0	Count	59	32	91
		% of Total	22.1%	12.0%	34.1%
	0% to 50%	Count	96	56	152
		% of Total	36.0%	21.0%	56.9%
	51% to 100%	Count	5	4	9
		% of Total	1.9%	1.5%	3.4%
Total		Count	170	97	267
		% of Total	63.7%	36.3%	100.0%

Table 13.

Percentage growth \* Marital status Crosstabulation

			Marital status		Total
			Beqar / i ndare	Married/living together	
Percentage growth	-150% to -101%	Count	0	1	1
		% of Total	.0%	.4%	.4%
	-100% to -51%	Count	0	14	14
		% of Total	.0%	5.2%	5.2%
	-50% to 0	Count	12	79	91
		% of Total	4.5%	29.6%	34.1%
	0% to 50%	Count	13	139	152
		% of Total	4.9%	52.1%	56.9%
	51% to 100%	Count	0	9	9
		% of Total	.0%	3.4%	3.4%
Total		Count	25	242	267
		% of Total	9.4%	90.6%	100.0%

Table 14.

**Percentage growth \* Management degree obtained Crosstabulation**

			Management degree obtained		Total
			Yes	No	
Percentage growth	-150% to -101%	Count	0	1	1
		% of Total	.0%	.4%	.4%
	-100% to -51%	Count	1	13	14
		% of Total	.4%	4.9%	5.2%
	-50% to 0	Count	10	81	91
		% of Total	3.7%	30.3%	34.1%
	0% to 50%	Count	13	139	152
		% of Total	4.9%	52.1%	56.9%
	51% to 100%	Count	1	8	9
		% of Total	.4%	3.0%	3.4%
Total		Count	25	242	267
		% of Total	9.4%	90.6%	100.0%

Table 15.

**Percentage growth \* Predicted Response Category Crosstabulation**

			Predicted Response Category			Total
			-50% to 0	0% to 50%	51% to 100%	
Percentage growth	-150% to -101%	Count	1	0	0	1
		% within Percentage growth	100.0%	.0%	.0%	100.0%
	-100% to -51%	Count	10	4	0	14
		% within Percentage growth	71.4%	28.6%	.0%	100.0%
	-50% to 0	Count	43	47	0	90
		% within Percentage growth	47.8%	52.2%	.0%	100.0%
	0% to 50%	Count	20	131	0	151
		% within Percentage growth	13.2%	86.8%	.0%	100.0%
	51% to 100%	Count	0	8	1	9
		% within Percentage growth	.0%	88.9%	11.1%	100.0%
Total		Count	74	190	1	265
		% within Percentage growth	27.9%	71.7%	.4%	100.0%

Table 16.

## Categorical Variables Codings

		Frequency	Parameter coding		
			(1)	(2)	(3)
Sector	Agriculture	2	1.000	.000	.000
	Industry	15	.000	1.000	.000
	Services	231	.000	.000	1.000
	Construction	17	.000	.000	.000
Number of employees	1	127	1.000	.000	
	2-9	129	.000	1.000	
	10-49	9	.000	.000	
Brother in law/maternal uncle are partners	Yes	13	1.000		
	No	252	.000		
Brother in law/maternal uncle helped with finding employees	Yes	50	1.000		
	No	215	.000		
Brother in law/maternal uncle helped with accounting	Yes	14	1.000		
	No	251	.000		
Operating place	Tirane/Durres	12	1.000		
	Other	253	.000		
Contracted bank loan for the business	Yes	79	1.000		
	No	186	.000		
Management degree obtained	Yes	24	1.000		
	No	241	.000		
Marital status	Beqar / i ndare	25	1.000		
	Married/living together	240	.000		
Birthplace	Urban	168	1.000		
	Rural	97	.000		
Age	- 50	193	1.000		
	+ 50	72	.000		
Gender	Male	197	1.000		
	Female	68	.000		
Brother in law/maternal uncle helped finding capital	Yes	27	1.000		
	No	238	.000		
Brother in law/maternal uncle helped finding suppliers	Yes	52	1.000		
	No	213	.000		
Received government subsidies for the business	Yes	7	1.000		
	No	258	.000		
Enlarged family (except the brother in law/maternal uncle) helped with business	Yes	121	1.000		
	No	144	.000		
Close family helped with the business	Yes	212	1.000		
	No	53	.000		
Business association member	Yes	37	1.000		
	No	228	.000		
Friends helped with the business	Yes	192	1.000		
	No	73	.000		
Brother in law/maternal uncle helped finding investment opportunities	Yes	17	1.000		
	No	248	.000		
Brother in law/maternal uncle helped benchmarking	Yes	42	1.000		
	No	223	.000		
Brother in law/maternal uncle helped with administrative issues	Yes	21	1.000		
	No	244	.000		
Brother in law/maternal uncle helped finding customers	Yes	115	1.000		
	No	150	.000		
Brother in law/maternal uncle helped selling	Yes	80	1.000		
	No	185	.000		
Brother in law/maternal uncle helped with taxes	Yes	14	1.000		
	No	251	.000		
Function	Owner	225	1.000		
	Manager	40	.000		

Table 17.

**Classification Table<sup>a</sup>**

Observed			Predicted		
			Growth rate		Percentage Correct
			.00	1.00	
Step 1	Growth rate	.00	53	52	50.5
		1.00	25	135	84.4
	Overall Percentage				70.9

a. The cut value is .500

Table 18.

**Area Under the Curve**

Test Result Variable(s): Predicted probability

Area	Std. Error <sup>a</sup>	Asymptotic Sig. <sup>b</sup>	Asymptotic 95% Confidence Interval	
			Lower Bound	Upper Bound
.761	.030	.000	.703	.820

The test result variable(s): Predicted probability has at least one tie between the positive actual state group and the negative actual state group. Statistics may be biased.

- a. Under the nonparametric assumption
- b. Null hypothesis: true area = 0.5

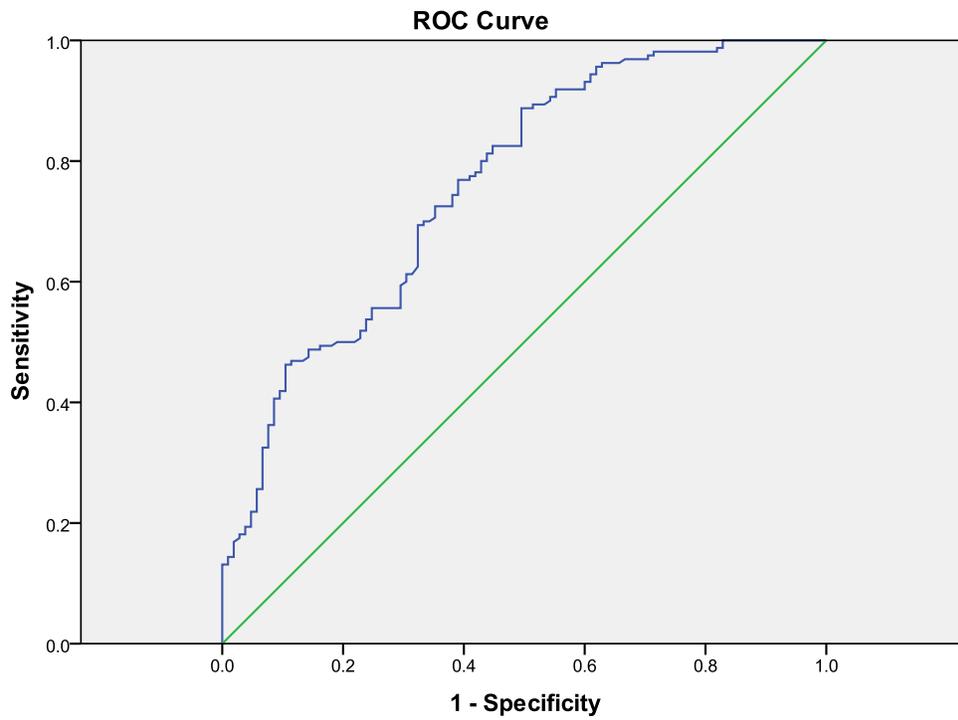
Table 19.

	Model I	Model II	Model III			
Regression method	Probit	Binary Logit	Multinomial Logit			
Model type	Main effects	Enter	Main effects: baseline=Category 5			
Restriction level	Unrestricted	Unrestricted	Restricted (-150% to -101%)	Restricted (-100% to -51%)	Restricted (-50% to 0%)	Restricted (0% to 50%)
Owner	.11	.41	2.64	17.27	-14.06	-13.43
Gender (male)	.08	.16	-28.06	-12.05	-12.75	-12.57
Age (-50)	<b>*0.33</b>	.53	-14.68	-5.82	-.78	-.48
Birthplace (urban)	-.12	-.19	-13.11	4.63	.94	.87
Marital status (single/separate)	-.17	-.13	40.96	1.99	15.21	15.17
Management degree obtained	.04	-.27	1.46	-3.35	-2.30	-2.72
Agricultural sector	.86	20.49	-.48	-2.30	-5.36	9.89
Industrial sector	.60	1.03	-11.73	-.23	-2.87	-.90
Services sector	-.10	-.05	-17.73	.31	1.28	1.56
Individual firm	<b>*-1.05</b>	-2.27	-2.85	29.81	-.13	-2.45
Small firm (2-9 employees)	-.63	-1.54	-15.81	24.86	-2.16	-3.78
Operating place (Tirane/Durres)	-.55	-.23	5.99	18.57	9.18	9.84
KA helped with accounting	.74	1.48	9.53	2.74	7.82	8.99
KA helped with finding employees	.23	.67	15.98	-.17	-1.15	-.43
KA partners	.35	.78	29.00	7.96	-3.48	-2.69
KA helped with finding capital	<b>*-0.73</b>	<b>** -1.57</b>	7.16	<b>**8.58</b>	3.29	1.86
KA helped find suppliers	.24	.79	3.54	-5.03	.19	.95
KA helped with administrative issues	-.31	-.45	-13.13	3.24	.00	-.09
KA helped find customers	-.25	<b>*-0.67</b>	-4.54	.43	-.71	-1.38
KA helped sell	.25	.67	-10.70	.57	-1.23	-.43
KA helped with taxes	<b>** -0.89</b>	<b>** -2.31</b>	-2.60	13.92	10.68	8.29
KA helped benchmarking	<b>** -0.49</b>	-.87	16.77	11.06	20.59	19.69
KA helped find investment opportunities	-.05	-.60	-1.09	<b>** -13.09</b>	-5.65	-6.55
Friends helped with business	.24	.53	14.83	<b>** -5.77</b>	.16	.51
Business association member	<b>**0.57</b>	.48	-5.07	-21.64	<b>** -3.82</b>	<b>** -3.57</b>
Close family helped with business	<b>** -0.42</b>	<b>* -0.72</b>	16.96	3.97	<b>*3.21</b>	2.69
Enlarged family helped with business	.21	.20	-31.52	-.78	-5.21	-5.00
Received government subsidies	<b>**1.21</b>	2.21	-7.99	-17.65	-4.34	-2.13
Bank loan	<b>*** -0.53</b>	<b>*** -1.18</b>	-23.90	<b>*5.51</b>	3.24	2.07
Constant		2.19	22.85	-31.22	32.47	34.33
$K_1$	<b>*** -3.95</b>					
$K_2$	<b>*** -2.71</b>					
$K_3$	<b>* -1.14</b>					
$K_4$	<b>**1.42</b>					
Classification of predictions (%)		70.90		74.70		
LR ( $\chi^2$ )	<b>***75.57</b>	<b>***65.008</b>		<b>***185.43</b>		
Chi square	<b>***1160.04</b>			<b>***831.35</b>		
Nagelkerke R <sup>2</sup>		.29		.59		

\*, \*\*, \*\*\* significant at 90, 95 and 99 percent

## Figures

Figure 1.



Diagonal segments are produced by ties.

**ANNEX 1.**

*This questionnaire is realised by the CESS and CERGE-EI*

*The information collected is strictly used for the purposes of a research project on Albania*

*Thank you.*

---

**Identification:**

*City*

Elbasan  Gjirokaster  Korce  Kukes  Lezhe  Librazhd   
Shkoder  Tirane  Vlore

*Business registration number:*

*Name, Lastname* \_\_\_\_\_

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*Module 1. On the owner/manager*

**1Q1. Position:** Owner  Manager

**1Q2. If manager, what is the relationship with the owner:**  
*Spouse, Employee, Siblings/Parents, Children, Uncle/Brother-in-law, Cousin*

**1Q3. Gender:** M  F

**1Q4. Age:** -50  +50

**1Q5. Birthplace:** Urban  Rural

**1Q6. Civil status:** *Single/Separated; Married/Living together*

**1Q7. Degree in business management:** Yes  No

*Module 2. Economic situation in 2009*

**2Q1. Sector of activity:** *Agriculture, Industry, Services, Construction*

**2Q2. Percentage growth of turnover during 2009:**

0 to -50  -51 to -100  -101 to -150

0 to 50  51 to 100  101 to 150

**2Q3. Number of employees:** 1  2-9  10 - 49  49 - 249

**2Q4. Business location:** Tirane/Durres  Other

*Module 3. Social and family relations*

**3Q1.** *Did your maternal uncle or your brother in law help you with business accounting?*

Yes  No

**3Q2.** *Did your maternal uncle or your brother in law help you to find employees?* Yes  No

**3Q3.** *Did your maternal uncle or your brother in law help you as partners?*

**3Q4.** *Did your maternal uncle or your brother in law help you to find capital for your firm?*

Yes  No

**3Q5.** *Did your maternal uncle or your brother in law help you to find suppliers?* Yes  No

**3Q6.** *Did your maternal uncle or your brother in law help you with legal or administrative matters?* Yes  No

**3Q7.** *Did your maternal uncle or your brother in law help you to find customers?* Yes  No

**3Q8.** *Did your maternal uncle or your brother in law help you with advertising?* Yes  No

**3Q9.** *Did your maternal uncle or your brother in law help you with tax matters?* Yes  No

**3Q10.** *Did your maternal uncle or your brother in law help you with benchmarking?* Yes  No

**3Q11.** *Did your maternal uncle or your brother in law help you to find investment opportunities?* Yes  No

*Module 4. Social Capital*

**4Q1** *Did social relations(friends) help you with your firm?* Yes  No

**4Q2.** *Are you member of a business organization related to your firm activity?* Yes  No

**4Q3.** *Did your close family (spouse, children, parents) help you with business accounting?* Yes  No

**4Q4.** *Did your extended family (cousins except the maternal uncle/ brother in law) help you with business accounting?* Yes  No

**4Q5.** *Did you receive any subsidies from local or national government authorities?* Yes  No

**4Q6.** *Did borrow money from the bank for your business?* Yes  No

*Thank you for your time and efforts. Have a good day.*