Enterprise Investments, Innovation and Performance:
Evidence From Albania

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ABSTRACT

Enterprise investments and innovation are the key requirements for a country's development. Albania as a developing country with 27 years' experience of an open economy, has shown significant efforts in improving its market structure and enterprise development through the investment in different economic sectors and sustaining innovation. This article aims to investigate the contribution of investments and innovation on entrepreneurial performance in Albania for the period 2000 to 2014. Multiple regression analysis is applied to test this relationship. Secondary data collected from the Albanian Institute of Statistics (INSTAT) and General Directorate of Trademarks & Patents (GDTP) reports are used as an investigation tool in the study. The results of the study show that there exists a very strong relationship between investment, innovation and entrepreneurial performance for this period in Albania.

KEYWORDS

Albania, Correlation, Enterprise Performance, Innovation, Investments

INTRODUCTION

Innovation is central to modern theories of growth and development (Verspagen, 2005). Along with the traditional factors such as costs, technological product, and process, innovations have become the key to competitiveness and business success (Szirmai, Naude, & Goedhuys, 2011, p. 8). Hausmann, et al. (2014) view economic development as a social learning process where entrepreneurs, investors and policymakers play a fundamental role in this economic exploration. Investments in human capital and R&D due to knowledge spillovers will have an impact on innovation, because as there is an increase of human capital in the economy, by the same time the value of public knowledge derived from R&D activities will increase too. As innovativeness in a country is increased, its competitiveness in the global market also increases. The global economy has shown fast transformations based on rapid developments of technology and knowledge.

There exist many ways to measure innovative performance of firms like patent uses, trademarks, R&D inputs, publications, surveys, etc. Patents are used to protect inventions or technical solutions that are new and applicable by the industry. Patents are issued for inventions in all fields of technology

that are not part of the prior art, which contain an inventive step, and which can be implemented for application in industry (GDTP, 2007, p. 10). Many authors have used in their research patent data as a measure of innovation (Comanor & Scherer (1969); Griliches (1990); Toivanen, Stoneman, & Bosworth (2002)). Patents are legal titles that grant their owners a temporary monopoly power over the use of an invention (Belenzon & Patacconi, 2013). At the same time there exist the possibility that not all the granted patents may be successful and on the other hand not all the inventions have been patented. Although there exist limitations in using patent data as a measure of innovation in a country, they still are significant when applied as a measure of information by confirming the contribution of patents on entrepreneurial performance.

Albania up to 1990s was a closed economy country under the communist regime. With the change in regime, from communism to democracy, a change in the economy too happened, from a closed economy to an open market economy. Since that time many changes have taken place in its economy. Industrial property in Albania can trace its beginnings to as early as the year 1920 (GDTP, 2007, p. 5). Archival sources show that Albania, as the other countries of the region protected invention since the beginning of the 20th century through detailed requirements and procedures provided by the law on trademarks. This system was applied for a short period, until 1944. For a period of half a century the communist regime ruled Albania in a closed economy. With the decline of this regime, the first law "On Industrial Property" was approved in 1994.

Schwab (2017), in the Global Competitiveness Report for 2017-2018, still classifies Albania as an efficiency-driven economy, which needs to invest in business sophistication and innovation to become an innovation-driven one. Kruja (2013) emphasizes that during the first two open market decades, "Albania has maintained a macroeconomic stability with a steady growth, but a low competitiveness". Most policymakers and academics agree that entrepreneurship is critical to the development and well-being of society (Kelley, Bosma, & Amoros, 2011, p. 12). Increasing the number of enterprises and entrepreneurs will not have an impact on the economy; if there will not be considered quality measures such as growth, innovation and internationalization (Kruja, 2013). The research conducted by O'Brien et al. (2017), "shows that the binding constraint to stronger growth in Albania is a lack of productive knowhow". The importance of new technologies and innovations for competitiveness and growth is a truism among managers, policy makers, and researchers (Koellinger, 2008).

This study aims to analyze the contribution of investments and innovation on the performance of enterprises in Albania. It is important to produce statistics and develop policy relevant indicators on entrepreneurship because entrepreneurs are crucial sources of innovation, economic growth and employment creation in modern economies (Eurostat-OECD, 2007). The link between the microeconomic origin of growth and the macro-economic outcome is still too rudimentary modeled to grasp the full width of these complex and intersecting forces (Braunerhjelm, 2010). Multiple regression analysis is applied to test this relationship. Data used to measure investments are the yearly enterprise investments (EI); to measure innovation is the number of granted patents per year (GP); and enterprise turnover (ET) to measure the entrepreneurial performance. The period taken into consideration is 2000-2014, since data before 2000 related to the number of granted patents per year are not available.

An Overview of the Albanian Economy

Albania has experienced a major transformation over the last quarter century, emerging from a particularly isolated form of communism in the early 1990s to face the substantial challenges of forming a responsive, democratic system of government and developing a modern economy (O'Brien et al., 2017).

Albanian economy has a 29 years' experience of private property, open market and free trade. A structural overview of the economic enterprises as 2014 is provided in Table 1. Year 2014 resulted in 85,206 economic enterprises, 86% of which were service providers and only 14% goods producers.

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