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## MANAGEMENT NEEDS OF ALBANIAN START-UPS: A REVIEW OF WORLD EXPERIENCE TO APPLY

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### Abstract

*This paper sets out to review the best world experiences and practices of assisting start-up companies to better manage their day-to-day business activities with the intention of offering the best possible alternative for application to the Albanian start-ups. Albania today has about 88 start-ups per 1 million inhabitants, whereas countries of similar size and background to Albania have a lot more. The European Union average is of 250 start-ups per 1 million inhabitants, but Estonia stands out with more than 1100 start-ups for that number of inhabitants, while Lithuania has 500 start-ups per 1 million inhabitants. It is a known fact that most of the start-ups fail in their quest for building a sustainable business model out of an innovative business idea and, among many other factors at play, lacking the needed business management capacities is also to blame. Albanian start-ups answering to a questionnaire distributed for the purpose of this research are of the opinion that, apart from funding and other financial incentives, there is also a need to have structures in place that assist them in successfully managing their nascent businesses.*

*Keywords: Start-ups, Start-up ecosystem, Start-up management, Innovation, Albania*



## INTRODUCTION

It is a well-known and widely accepted fact that a lot of start-ups fail and a good part of the reasons why they fail is closely related to poor management decisions on their part. Worldwide, almost 90 percent of the start-ups fail and the reasons why they fail vary a lot. Many of them have to do with the particular products or services themselves that start-ups try to put on the market, but there are also many other reasons why start-ups fail that have nothing to do with the innovative idea itself. These reasons are actually more related to inadequate management of the business part of the start-ups.

At the very root of any start-up lies a bright and innovative idea for a new and revolutionising product or service. However, that does not necessarily mean that the person having that bright and innovative idea is also equipped with the much-needed management skills to successfully face the highly competitive and adversarial market, and this is the reason why start-ups should also be assisted in better managing their newly-founded business ventures.

Business management plays a vital role in the success of any organization, including start-ups. A sound business management approach would help start-ups set and achieve their goals by providing a structured approach to planning, organizing, and controlling resources. Effective business management optimizes the use of resources, reduces waste and improves productivity, leading to cost savings and better utilisation of assets. Having the needed managerial skills and applying them to drive a start-up towards success would also involve identifying and mitigating risks that could impact the start-up's performance. This includes financial risks, operational risks, and strategic risks, helping to safeguard the start-up's future. Management skills would also provide a systematic approach to decision-making, ensuring that decisions are based on accurate information and sound analysis, leading to better outcomes and more effective problem-solving.

Sometimes, the bright minds behind start-ups are too concerned with the innovative idea and overlook the importance a good business plan to guide them through the development process. They also sometimes overlook the marketing aspect, which is the make-or-break stage of the newly-founded business venture.

Start-ups, being the future development path of any given economy, are very important and for this very reason they are often nurtured through various private and public initiatives, and such initiatives should now comprise also a stronger approach towards instilling the much-needed business management skills.

## LITERATURE REVIEW: START-UPS AND MANAGEMENT

Business and management are two very closely related concepts that, most probably, one would not exist without the other. Management is responsible for whether the organization's efforts achieve the intended objectives and produce the projected results. Looking at the business-management duality as a symbiosis, start-ups represent the business part and their success is contingent to proper management, just like any other business venture is.

### On start-ups

Start-ups are extremely important for the future development of the economy of any given country and, therefore, crucial for guaranteeing the future prosperity of any given society. Treating start-ups like any other business is wrong because they are not like any other business, even though they operate just like any other business. The vast amount of research undertaken in this area emphasises that a start-up strives to offer a totally new product or service to the market, whereas a traditional business, even if it is newly opened, follows an already established pattern (Eisenmann, 2021; Mier, 2023).

Generally, a start-up is considered to be a temporary organization or institution in search of a profitable, measurable and scalable business model (Blank & Dorf, 2020; Szarek & Piecuch, 2018). On the other hand, referring to Albania's legal framework on start-ups, the definition that the Law no. 25/2022 "On the support and development of startups" stipulates for the start-ups is almost the same as the description that the academia gives.

The distinguishing feature of the start-ups is the high level of uncertainty in which they operate. From the very first moment they are inceptioned, usually in the form of a revolutionising idea of a new product or service, start-ups go through two phases of development: the experimental phase and the production phase. Today in the world, about 90 percent of start-ups fail and do not pass the experimental phase (Patel, 2015).

World experience shows that start-ups need support during the first experimental phase and this support is known as the "start-up ecosystem". Such ecosystems in the world operate with clear legal and regulatory frameworks, with various partners and collaborators, with the involvement of public and private actors, as well as with incentives for promoting the climate for the establishment and development of start-up ventures. In fact, the concept of ecosystem in economics and business is borrowed from ecology and the earliest definition of a business ecosystem was given by Moore (1993, 1996). According to him, a business ecosystem enables enterprises to "absorb resources of all kinds, attract capital, partners, suppliers and customers to build networks of cooperation" (Moore, 1993, p. 75).

Start-ups are very important for the development, growth and long-term sustainability of Albania's economy because they represent its future evolutionary directions. It is for this reason that these ventures should be encouraged and supported.

### **On management**

Looking at it from a theoretical perspective, or looking at it as purely a science, management represents the study of solving problems and strategic decision-making by business ventures and other organizations. However, looking at it from a practical perspective, management has been defined as the systematic process of planning, organizing, staffing, leading, and controlling with the overall aim to enable the organization to achieve its goals.

Koontz and O'Donnell (1955) have defined management as the art of getting things done through and with the people in formally organized groups. Management has also been defined as "a distinct process consisting of planning, organizing, actuating and controlling, performed to determine and accomplish the objectives by the use of people and resources" (Terry, 1971, p. 4.).

Looking at the above, it is clear that management is a crucial component in any business venture and it is fundamental in deciding its success or failure. It may not be the only factor, but it surely is one of them and it is very significant.

### **METHODOLOGY**

The study undertaken here takes a close look at why start-ups fail worldwide, focusing mainly on the role that management, or lack of it, plays in those failures. In its core design, it is a rather descriptive study, with the clear intention to discover and describe the lack of sound management practices among start-ups.

In regard to this, data is collected from surveys conducted and published by various international organizations and renowned researchers identifying the reasons why start-ups fail.

At the end, this study will reach its conclusion, emphasising that as much as start-ups need funding, they also need help managing their innovative enterprises.

### **POOR MANAGEMENT SKILLS: START-UPS NEED HELP**

Worldwide, about 90 percent of start-ups fail to get past the experimental phase. They remain just ideas, without ever reaching the production phase and the products or services they envisioned never having the chance to be on the market.

Eisenmann (2021), in his in-depth research on why start-ups fail, has identified six patterns to describe why start-ups fail and he puts inadequate management practices and skills

at the very top. Eisenmann (2021) states that “a great concept is necessary, but not sufficient, for startup success” (p. 9).

### **Idea and ambition, but no management skills**

The cornerstone of every start-up is the founder, or sometimes there may be more than one founder, who is the person or are the persons having the innovative idea for the new product or service. A founder’s influence on the fate of a start-up is hard to overstate. Disagreements amongst co-founders can result in one or, in many cases, multiple founders leaving which leads to the almost certain death of the business venture. Founders may have great ideas and limitless ambition, but lack fundamental management ability. With a diverse range of responsibilities, such as planning, organizing, staffing, and directing, management becomes complicated and easy to mess up. Additionally, many start-up founders do not have formal management education or training, making them even more susceptible to mistakes.

In any business venture, every decision has consequences. A string of consistently poor choices can culminate in the collapse of the start-up. It is not just about consequences, however. Slow decision-making can result in valuable opportunities slipping away. Ideally, decisions should be made promptly near the point of action and only by qualified personnel. On top of that, bad staffing practices, inefficient organizational structure, lack of quality leadership, and ineffective communication all have their roots in poor management.

Sifted, a London-based tech media company, part of the Financial Times group, has conducted a wide survey of the start-up employees across Europe regarding the management skills of start-up founders or leaders. In that survey, 63 percent of the respondents said that only a minority of the managers they have had at start-ups were equipped to take on the role, with some even reporting that their managers did not know how to lead and were poor at communicating (Partington, 2024).

According to the said survey, managers did not score any better when it came to setting out clear goals and offering personal and professional support. Only 4.5 percent of the respondents stated that their managers at start-ups had set them clear goals. Some respondents put managers’ lack of goal-setting down to not understanding or to not being able to adapt to the changing needs of a business venture at different phases of its growth. One of the conclusions the survey reached was that one of the biggest mistakes managers at start-ups make is being poor communicators on goals, decisions made and progress, being unable to empower teams and to manage the growth and the new challenges that come with a larger team and company.

Another survey with 111 defunct start-ups conducted by CB Insights, a New York-based company providing market intelligence on private companies and investor activities, shows that, overall, poor management decisions are to blame for start-up failures. The table below shows a breakdown of the reasons identified by the said survey as to why start-ups fail.

Table 1 CB Insights survey on main reasons why start-ups fail

Reasons the start-ups failed	
Ran out of cash	38 percent
No market need	35 percent
Got outcompeted	20 percent
Flawed business model	19 percent
Regulatory and / or legal challenges	18 percent
Pricing and / or cost issues	15 percent
Not the right team	14 percent
Product mistimed	10 percent

*Note:* In the survey, many of the defunct startups offered multiple reasons for their failure, and that is why the table highlighting the top reasons does not add up to 100 percent.

*Source:* The top 12 reasons startups fail. (2021, August 3). *CB Insights*. Retrieved 10 June 2024 from <https://www.cbinsights.com/research/report/startup-failure-reasons-top/>

Looking at the table above, it is crystal clear that almost all the reasons why start-ups fail are management-related. What led to their demise was poor decisions and inadequate management skills related to marketing, human resources, pricing and cost problems, business model, etc. For example, the results of the survey shown above indicate the dire cost of not implementing the right marketing strategy. Product mistiming, getting outcompeted and not being able to successfully sell the product or service illustrate that some poor management choices were made related to marketing. Previous studies have concluded that a prior market study and customer behaviour measurement should be undertaken because such a step would determine when a new offer can be put on the market (Nexhipi, 2014).

## CONCLUSION

Albania today has about 88 start-ups per 1 million inhabitants (Council of Ministers of Albania, 2021). However, there are countries of comparable size to Albania that have a by far more vibrant start-up environment. The European Union average is of about 250 start-ups per 1 million inhabitants, but there are other countries that stand out with even more start-ups.

Start-ups are vital for sustaining the future development of an economy and, therefore, very important to guaranteeing the prosperity of a society in the years ahead. Start-ups are today the emerging foundation of the next generation's economy, and Albania is not an exception to this rule.

However, the research presented in this paper is part of a broader study on the start-up ecosystem of Albania, undertaken in the framework of the PhD course followed at the Aleksander Moisiu University of Durres, Albania. Even though the abovementioned study is much larger in scope, this paper is confined to presenting only the role that poor management skills play in start-up failures, with the intention to emphasise the need to better assist them in future.

Albania lags behind many European countries in relation to the development of start-ups. Albania lags behind even some of the Western Balkan countries in that area. A very simple and clear illustration of this is the Law no. 25/2022 "On the support and development of startups", which was approved by the Assembly of Albania only in early 2022. Prior to two years ago, Albania had no legal framework relating to the start-ups and no schemes in place to encourage and support the development and growth of start-ups. The abovementioned law does establish a favourable regulatory and institutional framework for the creation and development of startups, but the funding is still far off from what it should be.

Since the legal framework on start-ups in Albania was established only recently, the data relating to their daily activities, challenges faced, successes, and failures is still missing. However, it is safe to say that any challenges and shortcomings faced by start-ups worldwide are present in Albania's start-up scene, including the need for better management skills and approaches.

### **Greater collaboration with academia**

One way to assist start-ups in Albania to better manage their newly-founded business ventures is by widening the scope of various functioning start-up ecosystems through the inclusion of universities. The higher education institutions possess the much-needed human expertise in order to offer advice and assistance towards better management of start-ups (Nexhipi & Gjoni, 2021).

Without professional and experienced assistance, Albanian start-ups are bound to make the same mistakes as start-ups anywhere else in the world. However, there is no reason why not to learn from the world experience and not repeat the same mistakes. At present, Albanian start-ups may face challenges greater than management, such as lack of funding, difficulties in building networks, the very small size of the local market, etc. Yet these are not strong enough

grounds to overlook the need for efficient and professional management. Even if the mentioned challenges were overcome, any start-up would still fail if it is not managed effectively and efficiently.

### Scope for further research

Failing start-ups is a fact and this paper was focused only in one particular group of reasons for this phenomenon, that related to the management aspect of newly-founded ventures. The research undertaken here has shown that inadequate management skills are to blame for a lot of start-up failures, reaching the conclusion that much more should be done for the start-up founders to also become better managers. In relation to Albania, building a greater collaboration with the academia was one alternative offered here, but for sure that is not the only one. Further research and other ideas are needed, especially in the context of Albania which is a late comer to the start-up scene, with the purpose of building the right and most effective structures for instilling the required management skills.

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