

THE SME ECOSYSTEM: AN EMPIRICAL ANALYSIS OF INTERNAL AND EXTERNAL FACTORS SHAPING FIRM PERFORMANCE

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Abstract

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Small and medium-sized enterprises (SMEs) play a pivotal role in Albania's economic development. Yet, their performance remains constrained by fragmented institutional support, limited managerial capacities, and uneven access to intermediary services. This study addresses these challenges by examining how internal and external ecosystem factors influence SME performance. Grounded in the entrepreneurial ecosystem approach of Stam and Spigel (2016) and van de Ven (1993), as conceptualized in the integrated framework of Stam and van de Ven (2019), the research explores how system conditions, framework conditions, and outputs interact to shape enterprise outcomes. Using a multiple linear regression (MLR) model, the analysis is conducted in two stages: first, to assess the aggregate influence of ecosystem factors at the macro level, and second, to identify the most impactful variables driving firm competitiveness and growth. The results demonstrate that human capital, managerial skills, and professional development, along with institutional quality, networks, market demand, cultural norms, and intermediary services, have statistically significant effects on SME performance. Among these, intermediary services and human capital emerge as the strongest determinants. The findings highlight that firm performance is a multidimensional outcome shaped by the interdependence of internal and external ecosystem components. The study provides empirical evidence supporting the ecosystem-based understanding of SME competitiveness and offers actionable insights for policymakers to enhance resilience, innovation, and sustainable growth in emerging economies.

Keywords: SMEs, Business Performance, Internal Factors, External Factors, Linear Regression, SME Ecosystem

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1. INTRODUCTION

Small and medium-sized enterprises (SMEs) are fundamental to global economies, contributing substantially to employment, innovation, and sustainable development (Beck & Demirguc-Kunt, 2006; Organization for Economic Co-operation and Development [OECD], 2017). Accounting for over 90% of businesses and more than 60% of total employment worldwide, understanding the determinants of SME performance is critical for effective policymaking and economic growth (World Bank Group, 2025). Recent research emphasizes the role of entrepreneurial ecosystems, where interdependent components collectively influence competitiveness and long-term firm outcomes (Isenberg, 2010; Autio & Thomas, 2014). Entrepreneurial ecosystems comprise institutional frameworks, networks, human capital, markets, and intermediary services that facilitate or constrain entrepreneurial activity (Stam & Spigel, 2016). SME performance is shaped by the dynamic interplay between internal capabilities and external environmental factors, including political, institutional, and cultural dimensions (Mason & Brown, 2014; Xie et al., 2021). Despite increasing scholarly attention, empirical studies examining the specific effects of ecosystem components in emerging economies, particularly the Western Balkans, are limited (OECD, 2022). In Albania, SMEs face structural constraints, such as restricted access to finance, infrastructural gaps, and a developing entrepreneurial culture (Xheneti & Barlett, 2012). Addressing these challenges requires enhanced financial intermediation, digitalization, and targeted policy support for innovation and sustainability (Alite et al., 2024; Trebicka et al., 2024). Furthermore, studies highlight the importance of environmental management, technology adoption, and strategic internationalization to strengthen SME resilience (Abdelwahed et al., 2023; Begum & Begum, 2025; Larabi, 2025). Building on the entrepreneurial ecosystem framework of Stam and van de Ven (2019), this study examines the impact of internal and external ecosystem factors on SME performance in Albania, employing multiple linear regression (MLR) to evaluate the relative contribution of key variables (Stam & van de Ven, 2019).

The paper is structured as follows. Section 2 reviews the literature on SME ecosystems. Section 3 presents the research methodology and descriptive statistics. Section 4 discusses the empirical findings and policy implications. Section 5 presents a discussion. Section 6 concludes with key results, limitations, and suggestions for future research.

2. LITERATURE REVIEW

It is widely acknowledged that SMEs play a critical role in the economic development of a country, as they contribute to job creation, foster innovation, and drive economic growth (Abdelwahed et al., 2023; Begum & Begum, 2025; Gautam et al., 2025; Larabi, 2025; Senderovitz, 2009). This study focuses on the Albanian SME sector and, accordingly, adopts the definition provided by the Albanian Institute of Statistics (INSTAT). In accordance with international standards, INSTAT employs a broadly comparable classification framework that emphasizes two primary criteria: the number of employees and annual turnover. Specifically, microenterprises are

defined as firms with up to nine employees and an annual turnover not exceeding 10 million lek; small enterprises as those with 10–49 employees and an annual turnover up to 50 million lek; and medium-sized enterprises as those employing 50–249 individuals with an annual turnover up to 250 million lek (INSTAT, 2020). Considering the focus of this research on the Albanian economy and its entrepreneurial ecosystem, the INSTAT classification provides the most contextually appropriate reflection of the domestic enterprise landscape and facilitates a rigorous assessment of SMEs' contribution to national economic development (Budianto et al., 2024; Yahaya & Nadarajah, 2023).

2.1. The role of SMEs in the economy

Small and medium-sized enterprises constitute a fundamental pillar of modern economies, representing the majority of firms, driving innovation, and contributing substantially to employment and sustainable economic growth (Abdelwahed et al., 2023; Begum & Begum, 2025; Gautam et al., 2025; Larabi, 2025; OECD, 2019b). Within OECD member states, SMEs account for approximately 99% of all enterprises and employ roughly 70% of the labor force (OECD, 2017). The significance of SMEs extends beyond quantitative indicators, as these firms are characterized by organizational flexibility, rapid adaptability to market fluctuations, and the capacity to generate sustainable economic value (Budianto et al., 2024; Burns, 2021).

SMEs play a pivotal role in fostering new ideas and experimenting with innovative practices, with Schumpeter (1942) framing them as agents of “creative destruction” whose introduction of novel products and processes disrupts established market structures (Schumpeter, 1942). Similarly, Freeman and Soete (1997) emphasize their contribution to market dynamism and transformation, while Tewari et al. (2013) highlight that SMEs enhance competition by offering consumers more diverse and affordable choices, compelling larger firms to improve efficiency, product quality, and innovation. These contributions underscore the critical importance of SMEs for competitiveness, innovation, and economic resilience (Freeman & Soete, 1997; Tewari et al., 2013).

Beyond their economic role, SMEs also support social inclusion and local community development by strengthening regional linkages and reducing territorial disparities (Audretsch et al., 2007; European Union [EU], 2022; OECD, 2019a). In stable and growing economies, heightened consumer confidence fosters spending, while firms demonstrate an increased propensity to invest (Korriku & Tartaraj, 2023). Consequently, establishing a supportive business environment is essential for sustaining long-term economic development (Stam & Spigel, 2016).

Despite their critical role, SMEs face persistent structural and operational challenges, including limited access to finance, bureaucratic inefficiencies, insufficient technological capabilities, shortages of skilled human capital, and barriers to entry in international markets (Abdelwahed et al., 2023; Abdul-Azeez et al., 2024; Begum & Begum, 2025; Larabi, 2025). These constraints highlight the need for comprehensive and strategically designed public

policies aimed at addressing systemic weaknesses within the SME ecosystem and enhancing the external conditions under which SMEs operate (Acs et al., 2016; Gautam et al., 2025).

2.2. Models of SME ecosystems

Small and medium-sized enterprises ecosystems represent complex and multidimensional structures influenced by a range of interrelated factors, including public policy, human capital, technological capabilities, and collaborative networks (Stam & van de Ven, 2019; Andrei et al., 2021). To better understand the dynamics of these ecosystems, scholars have developed a variety of theoretical and empirical models across diverse international contexts. These frameworks not only provide a robust basis for analyzing SME performance and growth but also offer actionable insights for policymakers, enabling the design of targeted interventions and the development of instruments aimed at fostering more supportive and resilient regional business environments. The subsequent section presents several of the most influential international models that have been widely adopted and validated in the academic literature.

2.2.1. The triple helix model: University-government-business

The triple helix model, first introduced by Etzkowitz (2008), conceptualizes innovation ecosystems as the result of dynamic interactions among three core institutional actors: universities, government, and business. Within this framework, universities transition from purely educational institutions to generators of knowledge, governments function not only as regulators but also as catalysts for innovation and competition, and firms participate in collaborative networks to apply and commercialize innovations (Audretsch & Belitski, 2017; Stam & van de Ven, 2019). Despite its wide recognition, the model has been critiqued for oversimplifying ecosystem dynamics by omitting key actors such as civil society and the natural environment (Cai & Etzkowitz, 2020). To address these limitations, the quadruple helix model incorporates civil society and media as additional drivers of innovation, whereas the quintuple helix extends the framework further by integrating the natural environment as a crucial factor for sustainable ecosystem development (Carayannis & Campbell, 2009; Smorodinskaya & Katukov, 2019). Collectively, these models underscore the multidimensional and evolving nature of contemporary innovation ecosystems, emphasizing the need to account for diverse actors and contextual factors when analyzing SME development and performance.

2.2.2. The business ecosystem model: A network of collaboration and value

The business ecosystem model, initially proposed by Moore (1993), conceptualizes firms as integral components of an interconnected system comprising suppliers, customers, competitors, and supporting institutions, rather than as isolated entities (Moore, 1993). This framework emphasizes that value creation is contingent upon collaboration and mutual support among actors within the ecosystem, consistent with Porter's (1990) argument that

participation in economic clusters and networks enhances firm competitiveness and operational efficiency (Porter, 1990). For SMEs, integration into ecosystems led by major firms or through collaborative networks offers access to critical resources, international markets, and advanced technological capabilities (Teece, 1986). Nevertheless, such integration entails potential risks, including dependence on dominant ecosystem actors, elevated transaction costs, data control issues, and the possibility of unfair competitive practices, which necessitate strategic approaches to market entry, differentiation, and resource management (Gereffi, 2018). Empirical evidence indicates that collaboration within networks promotes innovation and sustainable development, while interactions among ecosystem actors cultivate an "innovative climate" that positively influences SME performance and value creation (Abdelwahed et al., 2023; Bathelt et al., 2004; Gautam et al., 2025; Larabi, 2025; Powell et al., 1996). Consequently, the business ecosystem model provides a robust analytical framework for understanding how SMEs generate, share, and capture value within complex networks, while highlighting the importance of managing interdependencies and mitigating systemic risks.

2.2.3. The Silicon Valley startup ecosystem model

The Silicon Valley startup ecosystem model is a prominent framework for fostering innovation and supporting SME growth in the technology sector. It encompasses key elements such as a culture of innovation, mentoring networks, venture capital, and critical actors, including universities, incubators, and investment funds (Powell et al., 1996; Saxenian, 1996). Universities link knowledge generation to innovation, while incubators and venture capital provide financial support and growth opportunities. Mentoring networks and collaboration among sector actors further facilitate sustainable development and competitive advantage.

The model underscores the role of venture capital in enabling startup development and emphasizes a strong innovation culture that promotes knowledge exchange and experiential learning. However, its applicability may be limited in contexts with different cultural, institutional, or geographic conditions, where high costs, intense competition, and labor market specificities pose challenges (Saxenian, 1996). Nevertheless, the model is widely recognized for highlighting the importance of multi-actor collaboration in driving startup growth and advancing the technology sector.

While theoretical models such as the triple helix, the business ecosystem model, and the Silicon Valley startup ecosystem provide valuable insights into entrepreneurial ecosystem dynamics, empirical approaches are necessary to understand how different ecosystem factors influence SME performance. In this context, MLR is widely employed as a quantitative method to assess the relative impact of internal and external ecosystem components on firm outcomes. By applying MLR, researchers can evaluate the collective influence of various interdependent ecosystem factors on SME performance, without the need to rely solely on descriptive or qualitative analyses (Porter & Gujarati, 2008; Stam, 2015).

The literature indicates that SME performance is shaped by both internal capacities, such as managerial practices, human capital, and

opportunities for professional development, and external ecosystem conditions, including institutional quality, networks, market demand, and intermediary services (Abdelwahed et al., 2023; Larabi, 2025; Mason & Brown, 2014). Building on these insights, the current study advances two hypotheses to guide empirical investigation. The first hypothesis posits that internal and external factors of the SME ecosystem exert a significant influence on enterprise performance in Albania, reflecting the multidimensional nature of the ecosystem:

H1: Internal and external factors of the SME ecosystem significantly influence SME performance in Albania.

The second hypothesis asserts that institutions, networks, market demand, human capital, and intermediary services are the primary drivers of SME performance, representing the key channels through which ecosystem dynamics shape firm outcomes:

H2: Institutions, networks, demand, human resources, and intermediary services are the primary factors affecting SME performance.

By situating MLR within this conceptual framework, the study provides a robust empirical approach to test these hypotheses, enabling the identification of which ecosystem components most strongly influence SME performance. This approach not only operationalizes the theoretical constructs highlighted in the literature but also offers actionable insights for policymakers and practitioners seeking to enhance SME growth and competitiveness within the Albanian context.

3. RESEARCH METHODOLOGY

3.1. Research model

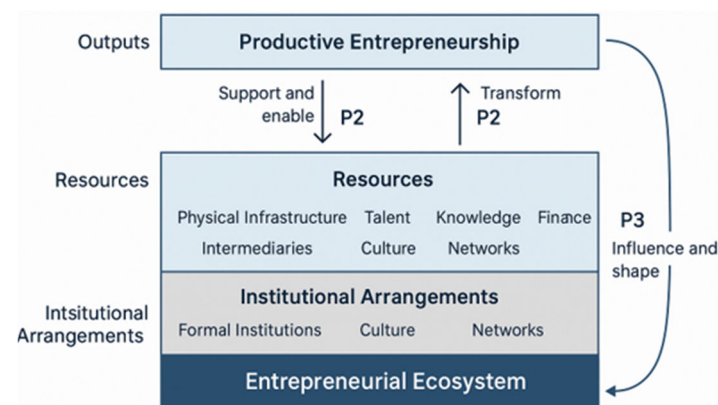
This study adopts a mixed-methods approach, integrating both qualitative and quantitative analyses to examine the impact of business environment factors on the performance of SMEs in Albania. The analysis is grounded in Stam's (2015) entrepreneurial ecosystem framework, which is particularly suitable for the Albanian context as it incorporates both internal elements (actors,

networks, knowledge) and external conditions (regulatory environment, infrastructure, and cultural factors) influencing SME outcomes (Stam, 2015).

Stam's framework distinguishes between systemic conditions, reflecting interactions among key actors such as entrepreneurs, investors, mentors, universities, and support organizations, and framework conditions, encompassing the regulatory environment, infrastructure, and cultural norms shaping entrepreneurial activity (Stam, 2015; Stam & Spiegel, 2016). Unlike static models, Stam emphasizes the dynamic evolution of these relationships over time and highlights the critical role of social networks in fostering innovation and firm performance.

Given the developing nature of Albania's entrepreneurial ecosystem, which is marked by limited access to capital, infrastructural constraints, and an emerging entrepreneurial culture (Xheneti & Barlett, 2012), Stam's framework offers a robust basis for analyzing gaps and opportunities while taking into account regional economic conditions and evolving policy landscapes. According to Stam and Spiegel (2016) and van de Ven (1993), the framework, as elaborated by Stam and van de Ven (2019), conceptualizes the ecosystem through three interrelated dimensions. The first dimension, institutional arrangements, encompasses formal institutions, cultural norms, and networks that provide the social and legal foundation necessary to support entrepreneurship. The second dimension, resource provision, includes essential inputs such as physical infrastructure, financial resources, leadership, human talent, knowledge, support services, and market demand, which collectively facilitate entrepreneurial growth and the scaling of ventures. Finally, entrepreneurial outputs capture the tangible outcomes of these interactions, including SMEs and other ventures that commercialize innovations and generate economic value. By integrating these components, Stam's framework allows for a comprehensive understanding of how internal capacities and external ecosystem conditions interact to shape the development and performance of SMEs within Albania.

Figure 1. Elements and outputs of an entrepreneurial ecosystem



Source: Authors' adaptation based on Stam and van de Ven (2019).

For empirical purposes, these components have been operationalized as measurable variables. Independent variables correspond to internal factors (e.g., networks, talent, knowledge) and external factors (e.g., infrastructure, access to finance, formal

institutions), while the dependent variable is defined as SME performance, including growth, profitability, and innovation indicators.

The model is complemented by MLR to quantitatively assess the influence of these

ecosystem factors on SME outcomes. This method allows the simultaneous evaluation of multiple predictors, controlling for interdependencies while isolating the unique contribution of each factor:

$$Y = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \dots + \beta_n x_n + \varepsilon \quad (1)$$

where, Y represents SME performance, $x_1 \dots x_n$ are ecosystem factors, $\beta_1 \dots \beta_n$ denote coefficients measuring the impact of each variable, and ε is the error term.

An alternative method that could be suitable for future research is structural equation modeling (SEM). SEM is particularly effective for analyzing complex cause-and-effect relationships, including mediating and moderating effects among internal and external ecosystem variables. However, this method was not employed in the present study because the primary aim was to evaluate the direct influence of ecosystem components on SME performance in Albania. The available sample size and data structure were more appropriate for MLR, which allows for straightforward estimation and interpretation of the relative impact of each factor.

By integrating Stam's framework with MLR, this study provides a holistic and context-sensitive conceptualization of the Albanian SME ecosystem while enabling precise quantitative assessment of the contributions of individual ecosystem elements. This approach ensures that the research is theoretically grounded and produces evidence-based insights that can inform policymakers and practitioners seeking to enhance SME growth, competitiveness, and resilience in the Albanian context.

3.2. Sample

Data for this study were obtained through a structured questionnaire survey administered to SMEs located in the districts of Tirana and Durrës, which together represent the largest concentration of SMEs in Albania. To contextualize the empirical analysis, the study also incorporated a comprehensive review of the relevant literature.

The target population consisted of SMEs operating within these two districts, with the sample designed to capture sectoral diversity and to include both owners and managers across different organizational levels, thereby ensuring a comprehensive range of perspectives. The selection of SMEs followed a random sampling procedure across sectors. Consistent with Field's (2005) guidance, which recommends 10–15 observations per variable as sufficient for regression and factor analysis, the sampling approach ensured methodological rigor (Field, 2005). According to the official business register of the General Directorate of Taxes, a total of 68,954 active SMEs were recorded in Tirana and Durrës by the end of 2023, with the majority concentrated in Tirana. Based on the standard sample size formula for finite populations and applying a $\pm 5\%$ margin of error, a representative sample of 383 enterprises was constructed. This sample size provides adequate statistical power while ensuring both accuracy and generalizability of the study's findings.

3.3. Research instrument design and pilot testing

The primary instrument for data collection was a structured questionnaire. Before full implementation,

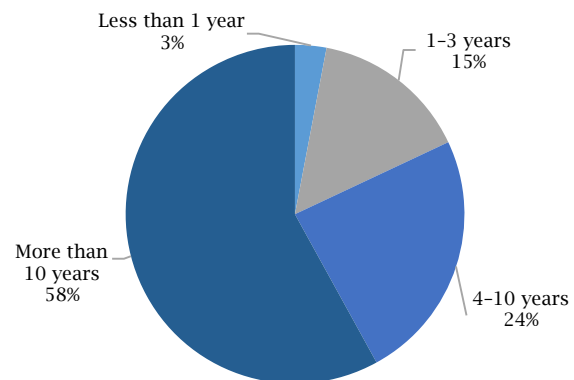
a pilot test was conducted with 20 SMEs to assess the clarity, relevance, and comprehensibility of the items. Feedback obtained from participants, complemented by expert consultations, informed subsequent revisions to improve the instrument's validity. The reliability of the finalized questionnaire was evaluated using Cronbach's alpha, with all constructs exceeding the threshold value of 0.7, thereby confirming strong internal consistency.

The finalized survey was distributed electronically to SMEs in Tirana and Durrës, ensuring adequate geographic and sectoral representation. In total, 383 valid responses were collected and subjected to statistical analysis using Statistical Package for the Social Sciences (SPSS) 25.0 and Microsoft Excel. The analytical strategy combined both descriptive and inferential methods, including descriptive statistics, cross-tabulations, Chi-square tests, correlation analysis (Pearson and Spearman), exploratory factor analysis (EFA), analysis of variance (ANOVA), and MLR. This multi-method approach facilitated both exploratory and confirmatory assessments of the factors shaping SME performance, thereby strengthening the robustness and validity of the findings.

4. RESULTS

The empirical analysis was based on responses from 383 SMEs operating in the regions of Durrës and Tirana, which together account for the largest concentration of enterprises in Albania. Of the total sample, 63% of respondents were located in Durrës and 37% in Tirana. In terms of sectoral distribution, the service sector was predominant (47%), followed by trade (30%), while the remaining share was represented by construction, manufacturing, and transport activities. Furthermore, 58% of the surveyed SMEs reported operating for more than 10 years, suggesting a considerable level of organizational maturity and stability, particularly within the service and trade sectors.

Figure 2. Longevity of SMEs



From an institutional perspective, SMEs in Albania report persistent barriers in accessing government support, insufficient transparency in policy implementation, and fiscal regulatory challenges, revealing a notable gap between policy intentions and practical outcomes. Similar concerns are observed in broader studies of SME ecosystems, where institutional weaknesses undermine competitiveness and sustainable development (Abdelwahed et al., 2023; Yahaya & Nadarajah, 2023). On a cultural level, entrepreneurs are generally

valued within their communities and increasingly emphasize professional development and social responsibility, aligning with recent findings that stress the strategic role of social and environmental engagement in enhancing SME performance (Larabi, 2025).

Networking and collaboration are largely informal, with minimal involvement in formal business associations. However, informal partnerships with customers and peer firms remain common and are perceived as beneficial for survival and growth (Gautam et al., 2025; Powell et al., 1996). Financially, SMEs depend primarily on personal savings and bank loans, while grants and public financial schemes are rarely utilized due to bureaucratic hurdles and administrative inefficiencies (Budianto et al., 2024). Physical infrastructure is moderately developed, though logistical bottlenecks continue to constrain business operations. Customer satisfaction has emerged as a strategic priority, pushing firms toward quality improvements and greater adoption of digital marketing, a trend that reflects broader SME digitalization efforts globally (Begum & Begum, 2025).

Human capital and leadership remain pivotal determinants of SME success, yet shortages of skilled personnel and limited investments in workforce development constitute significant growth barriers (Burns, 2021; Larabi, 2025).

Technology adoption remains underdeveloped, although there is an evident upward trend in the integration of digital solutions aimed at efficiency enhancement (Begum & Begum, 2025; Binjaku & Fortuzi, 2025). Access to intermediary services such as accounting, marketing, and information technology (IT) consultancy also remains constrained, despite their proven importance for strengthening competitiveness and performance (Budianto et al., 2024).

Overall, these findings underline the necessity of a more development-oriented institutional environment, broader access to finance and support services, and systematic investments in managerial, technological, and human capital capacities to improve SME sustainability and competitiveness. Furthermore, the study empirically assessed the role of innovation through a Chi-square independence test. Results (Pearson $\chi^2 = 111.996$, $df = 4$, $Sig. = 0.000$) confirmed a statistically significant relationship between innovation, including technological, managerial, cultural, and operational improvements, and SME performance. Although 11.1% of cells presented expected counts below 5, the robust sample size ($N = 383$) ensures the validity of the results. These outcomes provide strong empirical evidence that innovation serves as a critical driver of SME efficiency, resilience, and long-term growth (Gautam et al., 2025).

Table 1. Chi-square test

	<i>Value</i>	<i>df</i>	<i>Asymptotic significance (2-sided)</i>
Pearson Chi-square	111.996 ^a	4	0.000
Likelihood ratio	100.118	4	0.000
Linear-by-linear association	81.171	1	0.000
N of valid cases	383		

Note: ^a 1 cells (11.1%) have an expected count less than 5. The minimum expected count is 1.64.

Empirical evidence consistently highlights innovation as a pivotal determinant of SME performance (Abdelwahed et al., 2023; Gautam et al., 2025). Consequently, the strategic incorporation of innovation at both organizational and institutional levels is critical to enhancing SME competitiveness and long-term sustainability (Larabi, 2025). Building on this premise, the present study employs a confirmatory analytical approach to examine the influence of ecosystem factors on SME performance, utilizing linear regression analysis complemented by rigorous statistical testing.

The independent variables comprise *Culture and social attitudes*, *Role of institutions*, *Networks*, *Financing*, *Physical infrastructure*, *Demand*, *Management practices*, *Human resources*, *Knowledge*, *Innovation*, and *Intermediary services*, whereas *SME performance* functions as the dependent variable. This analytical model facilitates an assessment of the relative contributions of these factors to firm growth and development.

The adequacy of the dataset for factor analysis was verified through the Kaiser-Meyer-Olkin (KMO) measure, which yielded a value of 0.704, indicating acceptable sampling adequacy for subsequent analyses (Table 2).

Table 2. Kaiser-Meyer-Olkin and Bartlett's test

Kaiser-Meyer-Olkin measure of sampling adequacy		0.704
Bartlett's test of sphericity	Approx. Chi-square	241.581
	df	45
	Sig.	0.000

The normality of the study variables was assessed as a prerequisite for factor analysis, with results indicating an approximately normal distribution, consistent with standards in applied research. For factor construction, only items with loadings exceeding 0.4 were retained, ensuring that each variable made a statistically meaningful contribution to the analysis. Principal component analysis (PCA) was employed for factor extraction, reflecting its widespread use and robustness in research-oriented factor analysis.

Internal consistency was evaluated using Cronbach's alpha, with all variables surpassing conventional reliability thresholds, confirming satisfactory internal reliability. Before hypothesis testing, multicollinearity among independent variables was examined, with all correlation coefficients within the acceptable range of [-0.7, 0.7], indicating no significant multicollinearity concerns (Table 3).

Table 3. Correlation between independent variables

Variables	1	2	3	4	5	6	7	8	9	10	11
(1) Role of institutions	1										
(2) Culture and social attitudes	0.306**	1									
(3) Networks	0.123*	0.159**	1								
(4) Financing	0.068	-0.004	0.060	1							
(5) Physical infrastructure	0.138**	0.112*	0.062	0.074	1						
(6) Demand	0.134**	0.147**	0.042	0.021	0.075	1					
(7) Management practices	0.061	0.183**	-0.079	-0.003	0.024	0.142**	1				
(8) Human resources	0.253**	0.308**	0.058	0.096	0.072	0.076	0.182**	1			
(9) Knowledge	-0.016	0.059	0.065	0.058	0.046	0.126*	0.093	0.100	1		
(10) Intermediary services	0.148**	0.284**	0.064	0.008	0.110*	0.130*	0.205**	0.306**	0.108*	1	
(11) Innovation	0.220**	0.373**	0.181**	0.025	0.116*	0.111*	0.104*	0.325**	0.002	0.439**	1

Note: ** Correlation is significant at the 0.01 level (2-tailed); * Correlation is significant at the 0.05 level (2-tailed).

SMEs operate within a complex and dynamic ecosystem, where interactions among various participants play a crucial role in shaping business development and overall firm performance. To systematically analyze these dynamics, the SME ecosystem can be conceptualized at a macro level and categorized into internal and external factors (Stam & Spigel, 2016; Stam & van de Ven, 2019). Internal factors include managerial competencies, financial and human resources, professional development, and technology acquisition, whereas external factors encompass institutional support, physical infrastructure, cultural and social attitudes, market demand, networks, and intermediary services (Abdelwahed et al., 2023; Begum & Begum, 2025; Larabi, 2025).

These factors are highly interdependent, continuously interacting to collectively influence *SME performance*, rather than acting in isolation. In particular, innovation, technology adoption, and internationalization strategies have been shown to significantly enhance SME outcomes, underscoring the importance of both internal capabilities and external ecosystem support (Gautam et al., 2025). Consequently, a comprehensive understanding of *SME performance* requires considering the combined effects of managerial, organizational, and environmental factors, as well as the interactions between them (Budianto et al., 2024; Yahaya & Nadarajah, 2023).

Understanding the importance of the interaction of actors within the business environment, the purpose of this study is to assess the nature and power of these factors, mentioned above, on the performance of SMEs in Albania. To test this relationship, we built an MLR model, which will statistically analyze the impact of each group of factors on the dependent variable of *SME performance*.

To investigate *H1*, an MLR equation is constructed. The general form of the equation is:

$$Y = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + \dots + \beta_n x_n + \varepsilon \quad (2)$$

where, Y represents the performance of SMEs, β_0 is the ordinate at the origin (intercept), $\beta_1, \beta_2 \dots \beta_n$ are the regression coefficients that measure the impact of each factor on the dependent variable, $x_1, x_2, \dots x_n$ are the independent variables that

represent the internal and external factors analyzed, ε represents the error term, which reflects the impact of other unmeasured variables in the model.

To assess the impact of internal and external ecosystem factors on *SME performance*, an initial analysis was conducted using ANOVA. The results, with degrees of freedom (df) of 2 and 380 and an F-statistic of 42.492, indicate a significance level (Sig.) of 0.000, well below the conventional threshold of 0.05. These findings confirm the statistical validity of the model and demonstrate that the factors included in the analysis exert a substantial influence on the dependent variable, namely *SME performance* (Table 4).

Table 4. ANOVA of external and internal factors with performance

	Model	Sum of squares	df	Mean square	F	Sig.
1	Regression	35.558	2	17.779	42.492	0.000 ^a
	Residual	158.996	380	0.418		
	Total	194.554	382			

Note: Dependent variable: *SME performance*. ^a Predictors: Constant, external, and internal factors

Subsequently, an MLR model was employed to examine the direct relationships between each group of factors (internal and external) and *SME performance*. The results, presented in Table 5, show that the significance values for all regression coefficients, including the constant, internal factors, and external factors, are 0.000. This indicates a high level of statistical significance ($p < 0.05$) for each variable, confirming that both internal and external ecosystem factors exert a substantial influence on *SME performance*.

Table 5. Multiple linear regression analysis between performance and factor groups

Model	R ²	Adjusted R ²	t	Sig.
Constant	0.183	0.178	4.710	0.000
Internal factors			6.172	0.000
External factors			4.316	0.000

Based on these results, the regression equation representing the relationship between the variables takes the form:

$$SME\ performance = 1.145 + 0.494 (Internal\ factors) + 0.323 (External\ factors) \quad (3)$$

The results of the multiple regression analysis confirm the statistical validity of the impact of internal and external ecosystem factors on *SME performance*. The positive coefficient values indicate that enhancements in these factors are associated with a measurable increase in enterprise performance.

Moreover, the R^2 value of 18.3% demonstrates that a substantial portion of the variation in *SME performance* is explained by these factors, thereby supporting *H1*, which posits that *SME performance* is influenced by both internal and external ecosystem components.

Following the macro-level assessment of the interactions between internal and external ecosystem factors and their overall effect on *SME performance*, the study then shifts focus to the micro level in order to determine which specific factors contribute most significantly to the growth and improvement of SMEs. To investigate this targeted impact, to test *H2*, an ANOVA was initially performed, confirming the statistical validity of the constructed model. Specifically, based on the collected data, with degrees of freedom ($df = 10, 372$) and an F-value of 13.452, the significance level was 0.000, well below the conventional threshold of 0.05 (Table 6).

Table 6. ANOVA for the dependent variable: *SME performance*

	Model	Sum of squares	df	Mean square	F	Sig.
1	Regression	51.669	10	5.167	13.452	0.000 ^a
	Residual	142.884	372	0.384		
	Total	194.554	382			

Note: Dependent variable: *SME performance*; ^a Predictors: Constant, Intermediary services, Financing, Networks, Knowledge, Physical infrastructure, Demand, Role of institutions, Management practices, Human resources, and Culture and social attitudes.

These results indicate a significant and valid relationship between the dependent variable, *SME performance*, and several of the independent

variables included in the analysis. However, the question arises as to which specific independent variables are significantly correlated with performance and which exert the greatest impact. The subsequent analysis addresses this issue.

The significance values reveal that, among all the independent variables considered, only a subset demonstrates a statistically significant correlation with *SME performance*. Specifically, the variables related to the *Role of institutions*, *Networks*, *Demand*, *Human resources*, and *Intermediary services* exhibit significance values below 0.05, namely 0.040, 0.020, 0.010, 0.000, and 0.000, respectively (Table 7). Therefore, the MLR equation takes the form of Eq. (4).

Table 7. Multiple linear regression analysis between performance and independent variables

Model	R ²	Adjusted R ²	t	Sig.
Constant	0.266	0.246	1.929	0.055
Role of institutions			2.064	0.040
Culture and social attitudes			1.395	0.164
Networks			2.345	0.020
Financing			-0.966	0.334
Physical infrastructure			0.146	0.884
Demand			2.607	0.010
Management practices			0.752	0.452
Human resources			4.845	0.000
Knowledge			-1.261	0.208
Intermediary services			4.901	0.000

$$\text{SME performance} = 0.722 + 0.073 (\text{Role of institutions}) + 0.157 (\text{Networks}) + 0.172 (\text{Demand}) + 0.287 (\text{Human resources}) + 0.301 (\text{Intermediary services}) \quad (4)$$

All β coefficients in the model are positive, indicating that improvements in each factor are directly associated with enhanced *SME performance*. Among the analyzed variables, *Intermediary services* exhibit the strongest influence ($\beta = 0.301$), followed closely by *Human resources* ($\beta = 0.287$). These two components are considered essential pillars for the sustainable growth of SMEs, as they provide technical support, advisory services, and capacity-building opportunities within the enterprise (Begum & Begum, 2025; Gautam et al., 2025).

Next in magnitude is market *Demand* for products and services ($\beta = 0.172$), highlighting the direct relationship between sales potential and business performance. Business *Networks* ($\beta = 0.157$), functioning as forms of horizontal and vertical collaboration, also exert a considerable impact, particularly in facilitating innovation and knowledge sharing. The role of public institutions ($\beta = 0.073$) appears comparatively modest; although positive, its effect is weaker relative to other factors. This aligns with prior literature emphasizing that institutional policies often encounter bureaucratic obstacles and delays, thereby limiting their effectiveness in supporting the private sector (Brunetti et al., 1997; Larabi, 2025; Mason & Brown, 2014).

The constructed regression model accounts for 26.6% of the variability in *SME performance* ($R^2 = 0.266$), or a determination coefficient of 24.6%. Within the acceptable range [0; 1] or [0%-100%], this value is considered satisfactory for econometric analyses of social and economic phenomena, where unobserved factors beyond the model also contribute to the outcomes (Budianto et al., 2024).

In conclusion, the results substantiate *H2*, providing a clear depiction of the key factors that influence *SME performance*. These findings carry practical implications for policymakers and ecosystem

support institutions, highlighting the strategic importance of investing in intermediary services and human capital development as levers for promoting SME growth and success (Begum & Begum, 2025).

5. DISCUSSION

The empirical analysis confirms that the interaction between internal capacities and external ecosystem factors plays a critical role in shaping SME performance in Albania. The results support the proposition that firm outcomes cannot be attributed solely to organizational resources but rather emerge from the interplay of multiple dimensions, consistent with ecosystem-based perspectives on entrepreneurship (Isenberg, 2010; Yahaya & Nadarajah, 2023). This underscores that SMEs operate within an integrated environment where the role of institutions, networks, market forces, and support mechanisms collectively influence competitiveness and sustainability.

A particularly noteworthy finding is the pivotal role of intermediary services and human capital in driving SME performance. This aligns with international evidence highlighting the importance of knowledge transfer, advisory services, and workforce development as key levers for firm growth (Begum & Begum, 2025; Cania & Prendi, 2024; Cantner et al., 2021; Gautam et al., 2025). In the Albanian context, where managerial capacities and technical skills remain uneven, investments in professional training and access to consultancy services appear to offset structural limitations, enabling firms to innovate and adapt more effectively. These findings carry clear policy implications: public and private actors should prioritize the expansion of business development agencies, incubators, and training programs to strengthen SMEs' absorptive and adaptive capacities (Abdelwahed et al., 2023).

The positive contribution of market demand and business networks further emphasizes the importance of relational and market-driven dynamics. Collaboration, customer orientation, and strategic partnerships facilitate expansion opportunities and resource mobilization. Hence, policy measures promoting cooperative networks and forums for experience sharing can amplify these effects, allowing SMEs to access new markets, technologies, and innovative practices (Budianto et al., 2024; Larabi, 2025).

By contrast, the relatively modest impact of public institutions highlights the persistence of governance challenges. While institutional support is a recognized component of entrepreneurial ecosystems, bureaucratic inefficiencies and policy inconsistencies limit its effectiveness in Albania (Acs et al., 2016). This divergence from theoretical expectations underscores the importance of context in shaping ecosystem outcomes: in transitional economies, weak institutional enforcement often constrains the utility of formal support structures, placing greater weight on informal networks and market-based mechanisms (Xheneti & Barlett, 2012). Consequently, reforms aimed at enhancing institutional efficiency, reducing administrative burdens, and offering fiscal incentives remain essential to foster a more conducive environment for entrepreneurship.

The study also emphasizes the central role of innovation as a cross-cutting factor enhancing SME performance. The significant relationship between innovation and firm outcomes aligns with Schumpeterian perspectives of “creative destruction” and contemporary research highlighting digitalization, business-model innovation, and organizational flexibility (Begum & Begum, 2025; Gautam et al., 2025; Roper & Hewitt-Dundas, 2017). For Albanian SMEs, technological adoption, managerial innovation, and customer-focused strategies represent crucial pathways to competitiveness in increasingly globalized markets. Embedding innovation within business models and promoting open collaboration with universities, research centers, and start-ups can help overcome internal capacity gaps and strengthen innovation ecosystems.

When compared with other Western Balkan and EU member states, Albania's SME ecosystem reveals both parallels and divergences. Similar to neighboring countries, Albanian SMEs face constraints in financing, institutional support, and innovation adoption, reflecting regional structural challenges (Begum & Begum, 2025; OECD, 2022). However, EU economies typically benefit from stronger institutional frameworks, developed intermediary services, and robust innovation ecosystems that collectively enhance competitiveness (EU, 2022; Gautam et al., 2025). These contrasts highlight the urgency of accelerating convergence with EU standards through digital transformation, institutional strengthening, and cross-border partnerships that integrate Albanian SMEs more effectively into European value chains.

Overall, the discussion highlights practical and strategic priorities for strengthening SME performance: expanding intermediary and consultancy services; investing in human capital and continuous training; streamlining institutional mechanisms; fostering cooperation and network participation; and embedding innovation and market orientation into firm strategies. Collectively, these measures can enhance the resilience,

competitiveness, and sustainability of Albanian SMEs within a rapidly evolving economic environment (Abdelwahed et al., 2023; Begum & Begum, 2025).

6. CONCLUSION

This study empirically demonstrates that the performance of SMEs in Albania is strongly shaped by the dynamic interplay between internal resources and external ecosystem conditions. The analysis confirms that both managerial capacities, including financial and human capital, and external factors such as institutional quality, business networks, market demand, and intermediary services, exert statistically significant influences on SME outcomes. Among these, intermediary services and human resources emerge as the most critical determinants, highlighting the centrality of knowledge transfer, professional development, and advisory support in fostering competitiveness and sustainable growth (Begum & Begum, 2025; Gautam et al., 2025).

The empirical findings of the study, including multiple regression analyses and Chi-square tests on innovation, provide robust evidence that SMEs' internal capacities and external ecosystem factors operate synergistically to enhance performance. Intermediary services, by facilitating access to technical expertise, consultancy, and market intelligence, demonstrate the strongest positive effect on SME performance, followed closely by human capital and professional development. These results underscore that policies and interventions targeting these domains can generate tangible performance improvements, even in contexts where institutional frameworks are comparatively weak. Market demand and business networks also contribute positively, confirming that relational and market-driven dynamics complement internal firm capacities, whereas public institutions exert a relatively modest effect, reflecting persistent governance challenges in transitional economies (Larabi, 2025; Xheneti & Barlett, 2012).

The study reinforces the theoretical applicability of ecosystem-based perspectives in understanding SME performance in developing economies. Specifically, it provides empirical support for the notion that firm outcomes are not solely determined by organizational resources but arise from multidimensional interactions within the broader ecosystem. This contributes to the entrepreneurship literature by highlighting the interdependencies between internal capabilities and external enabling conditions, demonstrating that ecosystem perspectives capture complexities often overlooked by traditional resource-based approaches (Begum & Begum, 2025; Gautam et al., 2025).

From a practical standpoint, the findings offer clear guidance for policymakers and practitioners. Investment in human capital, expansion of intermediary services, and facilitation of cooperative networks emerge as priority interventions. Moreover, embedding innovation within firm strategies through technological adoption, managerial innovation, and customer-oriented practices can enhance SME competitiveness and resilience, providing short-term performance gains while longer-term institutional reforms are being implemented (Begum & Begum, 2025; Gautam et al., 2025).

Despite its contributions, this study has certain limitations. Its geographic focus on Tirana and Durrës limits the generalizability of the results to

other regions of Albania. Furthermore, the reliance on self-reported survey data may introduce potential bias. Future research should aim to expand the geographic and sectoral scope, adopt longitudinal designs to capture temporal dynamics, and incorporate qualitative methods such as interviews or case studies to deepen the understanding of SME ecosystem interactions. Comparative studies with other Western Balkan and EU economies could further elucidate structural and policy pathways to enhance SME performance in transitional contexts.

In conclusion, this research provides a comprehensive and empirically grounded

framework for understanding SME performance within Albania's evolving entrepreneurial ecosystem. By integrating internal and external determinants, it bridges theoretical and practical perspectives, highlighting that strengthening intermediary services, fostering human capital development, promoting innovation, and improving institutional efficiency are essential strategies for enhancing SME competitiveness and achieving sustainable growth. These measures are particularly crucial for Albania's ongoing alignment with EU standards and its broader economic integration.

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