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DETERMINANTS OF ENTREPRENEURSHIP ACTIVITY – EMPIRICAL EVIDENCE FROM ALBANIA[3]

This paper aims to explore the factors that determine the initiation of new enterprises in the context of Albania, a Western Balkan, upper-middle-income country. The study builds upon an extensive literature research on entrepreneurship activity and its determining factors. Through empirical analysis, we examine the influence of economic and socio-demographic factors on the initiation of new businesses. The regression analysis reveals a negative relationship between the tax burden index, innovation and the number of families with economic assistance, and a positive relationship between an individual's life satisfaction and education with the density of new businesses. By offering empirical evidence and recommendations, this study contributes to the existing literature and provides valuable insights to be used by policymakers, practitioners, and researchers who are interested in promoting entrepreneurship and economic development in developing countries.
Keywords: entrepreneurship; economic development; socio-demographic factors; innovation, education
JEL: L26; O10; J240; O31

1. Introduction

The role of entrepreneurship in fostering economic growth has been highly debated and studied in the economic literature. Literature is rich in studies, whose results appear to be mixed and dependent on the context and stage of economic development of the country being studied and the specific form of entrepreneurship activity undertaken (Stoica, Roman, & Rusu, 2020). But, in general, the most common conclusion is that new enterprises are seen as drivers of economic growth due to their strategic role in economic growth, employment and innovation (e.g. Stoica, Roman, Rusu, 2020; Lepojević, Ivanović-Đukić, Mladenović, 2016; Doran, McCarthy, O`Connor, 2016; Fritsch, 2008; Wong, Ho, Autio, 2005). In order for countries to capture these opportunities, it is important that a whole ecosystem of actors, such as policymakers, economists, researchers and educators contribute to create a supportive

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environment that stimulates entrepreneurship. Cultivating a favourable environment for individuals to start new businesses requires a thorough understanding of the factors that influence entrepreneurial activity and that facilitate their success.

Albania is an upper middle-income country, currently undergoing significant structural reforms, which aim to promote fair growth, productivity, and competitiveness within the economy. Entrepreneurship is a strategic focus as a catalyst for growth and development for the Albanian economy. The Albanian Government has prioritized the improvement of the legal and institutional framework for business development. In recent years, Albania has implemented various reforms aimed at reducing administrative obstacles and enhancing the overall business environment. According to the World Bank (2020), Albania ranks in the 82nd position out of 190 countries, better than Bosnia and Herzegovina (90) but falling behind the other regions countries such as North Macedonia (17), Serbia (44), Montenegro (50), and Kosovo (57). The data clearly indicate that there has been an advancement in comparison with 2016 and progress has been made in terms of enhancing loan accessibility, improving insolvency resolution procedures, connecting to the electricity grid, obtaining construction permits, and making tax payments.

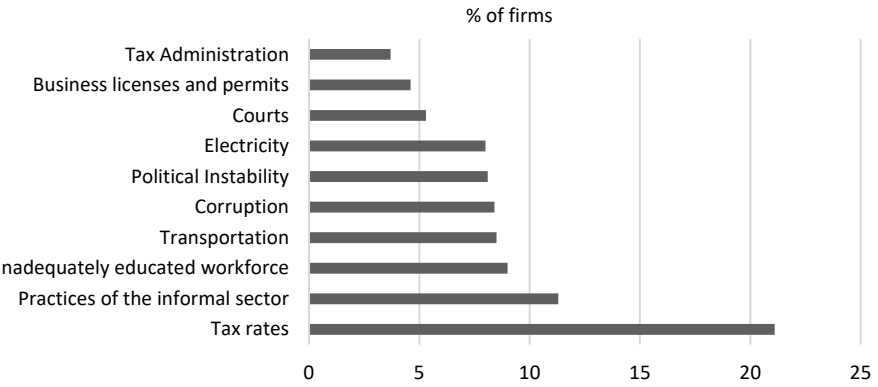
Table 1. Albania's ranking for "starting a business" indicator

Indicator	2016		2020	
	Scores	Ranking	Scores	Ranking
Starting a Business	90.1	58	91.8	53

Source: Doing Business 2020.

The World Bank's 2019 Enterprise Survey inquiries businesses to share their opinion regarding elements of the business environment. Respondents selected these key obstacles in the business environment: Tax rates, practices of the informal sector, inadequately educated workforce, transportation, corruption, political instability, electricity, courts, business licenses and permits, and tax administration (The World Bank, 2019).

Figure 1. Business Environment Constraints



Source: Enterprise Surveys, 2019.

As the entrepreneurial environment in Albania continues to develop, it is crucial to identify elements that play a role in the successful initiation of new businesses. There have been several attempts in the literature to study various elements of Albania's entrepreneurship environment. Most of the research work aimed at studying elements of the business environment and identifying the main obstacles that entrepreneurs encounter in doing business in Albania. The post-communist context is taken into account in all these studies because the communist legacy is still present in the mindset of individuals and entrepreneurship activity. These studies have underscored different factors affecting entrepreneurial endeavours, such as funding availability, market circumstances, legal framework, expertise, and social connections. The existing studies attempt to study the issue from an institutional perspective, excluding other social and cultural drivers. In this context, this study aims to provide an empirically-based suggestion for determining which factors have the most significant impact on an individual's choice to start a new business in Albania context, taking into consideration not only economic factors but also socio-demographic factors. This will be carried out by pursuing the following objectives:

- To review the current body of literature on entrepreneurship and its determining factors.
- To identify the key factors that influence the registration of new enterprises in Albania, using knowledge from theoretical models, and to evaluate the influence of these elements on entrepreneurial initiation through regression analysis.

The remainder of the paper is organized as follows: Section 2 reviews the existing literature on entrepreneurship and its determining factors, focusing on relevant theories and empirical findings. Section 3 outlines the conceptual framework and methodology used in this study, including the variables used in the regression analysis. Section 4 presents the empirical results and discusses the implications for theory and practice. Finally, section 5 offers conclusions and recommendations.

2. Literature Review

Entrepreneurship and entrepreneurs have been conceptualized by researchers in various and divergent manners over time. Knight (1942) describes an entrepreneur as an individual who owns a business, is responsible for controlling the business, and is entitled to the profit that the business generates. Galindo & Méndez-Picazo (2013), following the model of Schumpeter, provides a modern perspective for entrepreneurs. As Schumpeter argues, entrepreneurship entails the introduction of new products, organizations, or processes, which in turn leads to the creation of new industries and significant structural changes in the economy. In this context, the entrepreneur is the individual who guides the means of production towards these structural changes (Galindo, Méndez-Picazo, 2013).

The intention of individuals to start a new business is influenced by a wide range of factors that include both *industry-level* and *individual-level* dimensions. These dimensions include a combination of economic and non-economic factors. Despite the fact that literature offers different forms of classification for the main entrepreneurship determinants, the direction and strength of their impact are different in different country contexts. Researchers emphasize

that the dynamics of entrepreneurial activity vary among different countries and over time, because of the different stages of economic, social, cultural, and technological development (Verheul, Wennekers, Audretsch, Thurik, 2002; Bosma, Schutjens, 2011; Roman, Bilan, Ciumaș, 2018). For example, the study of Estrin & Mickiewicz (2011) on entrepreneurship activities in transition countries reveals that the rates of entrepreneurship in transition economies are generally lower compared to most developed and developing market economies. This disparity is particularly pronounced in the former Soviet Union countries. Although significant progress has been made in establishing formal institutions, entrepreneurial activity continues to be limited in these countries. This limitation can be attributed to the slow adaptation of informal institutions, including attitudes and social norms. There is another inconsistency that makes it difficult to distinguish the true influencers of entrepreneurial activity (Terjesen, Hessels, Li, 2013). There is a lack of a uniform definition and measurement of entrepreneurship, leading to challenges in comparing factors influencing entrepreneurial activity across different types of entrepreneurship.

Literature offers different forms of classifying the determinant factors and there is no agreed consensus on their classification. Pita, Costa & Moreira (2021) state that there is a vice-versa relationship between the entrepreneur and the ecosystem in which he operates: they both give and take from each other. They propose that entrepreneurship initiative is influenced by *endogenous factors* related to the individual personality traits, and from *exogenous factors*, from which they may benefit or suffer. Verheul, Wennekers, Audretsch & Thurik (2002) classify the environmental factors that influence entrepreneurial activity into *supply-side* and *demand-side factors*. So, besides characteristics related to the individual, they study the environment that creates the conditions for initiating a new business based on two factors: supply and demand factors. According to them, supply-side factors impact the individual decision to initiate a new business and are: population growth, density and urbanization rate, age structure, immigration, participation of women, income levels, and unemployment. Demand-side factors generate entrepreneurial opportunities by reflecting the market's need for goods and services and are represented by: technological development, globalization, and economic development. Another classification is that of Méndez-Picazo, Galindo-Martín & Castano-Martínez (2021) who classify the factors that influence entrepreneurship initiatives into two categories: *sociocultural* and *economic*. In the first category, they include the structure of institutions and the level of education and skills as proxies. According to them, more efficient institutions, clear rules, less bureaucracy, economic freedom, and a low level of corruption encourage entrepreneurship. Moreover, the higher the level of education and skills an individual possesses, the easier it is for him to identify and capture a business opportunity. In the second category, they use economic factors such as fiscal policy, investments in education, investments in R&D, and employment level. Their study of fifteen OECD countries reveals that both categories of factors are positively related to entrepreneurship, with the sociocultural factors having a greater impact.

The OECD and Eurostat have prepared a framework with six main determinants of entrepreneurial activity: regulatory framework, market conditions, access to Finance, R&D and technology, entrepreneurial capabilities, and culture (Eurostat, 2012). Every main theme is expanded into various entrepreneurship indicators. Along the same line, using data from 44 countries, Chowdhury, Terjesen & Audretsch (2015) study the impact of institutional factors on entrepreneurial activity. They use eight indicators of formal institutions: property

rights protection, freedom from corruption, tax rate, FDI inflows, start-up procedures, access to finance, economic development, and human capital. Roman, Bilan & Ciumaș (2018) studied the key variables that influence the registration of new businesses in 18 developed and developing countries in the EU, over the period 2003-2015. They grouped the factors into four categories: macroeconomic factors, demographic factors, individual factors, and business environment-related factors. Macroeconomic and demographic factors resulted to be the most important determinants.

Xhaneti & Bartlett (2012) examine the emergence of businesses in post-communist Albania from an institutional standpoint. The entrepreneur's age, education, qualifications, and work approach, as well as inadequate information and corruption, are explaining variables of the expansion of firms. Contrary to the expectations, the growth of businesses in the Albanian transition environment was not dependent on higher education, as the education of the entrepreneur has been found to have a notable adverse impact on growth. Moreover, corruption positively impacted growth. One potential rationale for this discovery is that as businesses view corruption as a challenge, they become more able to manage it, even if they have a negative perception of it. Bitzenis & Nito (2005) studied the obstacles that Albanian entrepreneurs encounter in their business environment. Entrepreneurs in Albania encounter several significant challenges: unfair competition, alterations in tax, and insufficient financial means. Bureaucracy and corruption did not appear to have a significant impact on entrepreneurial activity. The country's tax legislation, life standards, policy towards SMEs, and political instability/corruption are revealed as the most important obstacles for new enterprises (El Alaoui, Shopovski, Kvirkvaia, Alam, Ofili, 2016).

2.1. Innovation

Research papers that have tried to create conceptual frameworks and examine the relationship and interdependent roles of innovation and entrepreneurship are limited. However, it can be argued that innovation and entrepreneurship are continuous and complementary processes.

The relationship between innovation and the initiation of new entrepreneurship has its grounds in the Schumpeter theory of creative destruction. The connection between technological advancements and the establishment of companies has been a long-standing focus in the field of business studies. The emergence of new technological advancements will drive the establishment of new firms that replace existing ones by introducing new products, services, and innovative business structures (Thomas, 1987). The likelihood of an innovation being brought to market through the establishment of a new company is impacted by its significance, level of novelty, and the extent of its patent coverage (Shane, 2001). Brazeal & Herbert (1999) propose a simple model of the entrepreneurial process, in which contextual changes lead to technical innovation, which is brought forward by creativity leading to an entrepreneurial activity. Zhao (2005) concludes that innovation and entrepreneurship are complementary processes. According to their study, there is a positive correlation between entrepreneurship and innovation, they are mutually beneficial, and their combination is crucial for the success and longevity of an organization in the current dynamic and evolving landscape. Innovation and entrepreneurial exhibit a certain level of parallelism and overlap (Brem, 2011). Galindo & Méndez-Picazo (2013), in their empirical analysis,

describe the relationship between innovation and entrepreneurship as a circular one; innovation positively impacts economic development and new enterprises, and from the other side, economic development and new enterprises encourage innovation.

Hypothesis 1 (H1): There is a positive relationship between innovation and the initiation of new enterprises.

2.2. Tax Burden

From the point of view of economic factors, another important factor that significantly impacts entrepreneurial activity is taxation. There have been numerous theoretical and empirical studies that have been carried out to explore the relationship between fiscal policies and the initiation of new businesses. The results of most of the studies conclude with the idea that tax administrative burden acts as a market entry burden and redirects the anticipated utility of entrepreneurs towards exploring alternative employment opportunities. Gentry & Hubbard (2000) have studied the effects of tax rates on the decision to become an entrepreneur. Their model finds that there is limited support for the idea that the tax rate level significantly impacts the decision to initiate a business. Additionally, there is strong evidence indicating that progressive taxation acts as a deterrent to entrepreneurship. Braunerhjelm & Eklund (2014) have studied the impact of tax administrative burden on the registration of new enterprises. To assess the burden of tax administration, they employ two distinct metrics: the annual number of tax payments and the duration it takes to fulfil tax obligations. According to their study, new business registration rates increase by 3% for every 10% decrease in the tax administrative burden. Tax administrative burden presents an entry barrier for new entrepreneurs wanting to enter the market; taxes have a direct impact on after-tax profit and indirectly raise fixed costs. The fixed costs increase also by the administrative costs related to tax compliance. The results of this study are in line with the results of the study of Braunerhjelm, Eklund & Thulin (2021), whose study aimed to examine the impact of variations in the tax administrative burden on different stages of entrepreneurial activity across OECD countries for the period from 2005 to 2012. Their empirical analysis revealed that the tax administrative burden has a significant negative impact on various stages of an entrepreneur's life cycle. The intention to start a new enterprise is significantly negatively impacted, but the impact is stronger for new businesses that are just starting to grow and generate revenue. The study of Huong & Linh (2021) showcases a notable correlation between the administrative tax burden and entrepreneurial engagement in the Asia-Pacific nations. They reveal a detrimental influence of the tax administrative expenses on entrepreneurial aspirations, early-stage entrepreneurship, and established business ownership. Furthermore, individuals with intentions to initiate a business are significantly influenced by the corporate tax rate. So, based on the above, the following hypothesis is proposed:

Hypothesis 2 (H2). There is a negative relationship between tax burden and initiation of new enterprises.

2.3. Positive emotions

There is a growing concern about non-economic motivation in entrepreneurial behaviour. Researchers argue that emotions influence entrepreneurial intention and behaviour. Throughout the entrepreneurial process, individuals experience a range of positive and negative emotions, which in turn interact with their confidence levels and ultimately impact their entrepreneurial motivation. Additionally, researchers have specifically examined the role of positive emotions, such as happiness and satisfaction, in entrepreneurial behaviour. It has been found that happiness and satisfaction positively affect entrepreneurial performance, and individual entrepreneurial enthusiasm plays a significant role in identifying opportunities and effectively utilizing them. Satisfaction in individuals leads to increased creativity, and perseverance, and enables individuals to better handle the obstacles that come with entrepreneurship. Several studies have supported the idea that satisfaction drives entrepreneurial activity both at the individual and country levels. Welpe, Spörrle, Grichnik, Michl & Audretsch (2011) explored the direct and moderating effects of emotions on identifying and capturing entrepreneurship opportunities. Emotions had a direct impact on identifying and productively exploiting entrepreneurship opportunities; fear was found to reduce entrepreneurial exploitation, while happiness and anger were linked to heightened identification and exploitation of entrepreneurship opportunities. Usai, Orlando & Mazzoleni (2019) confirm that happiness, together with creativity positively impacts entrepreneurial initiative and intellectual property. Su, Liu, Zhang & Liu (2020) attempted to shed light on the role that emotions play in the decision-making process of entrepreneurship. According to them, positive emotions are a strong driver of long-lasting entrepreneurial drive and they can explain different aspects of entrepreneurial intentions during different phases of the entrepreneurial process. Moreover, during the entrepreneurial journey, individuals with a positive mindset are more likely to overcome challenges and seize opportunities. The positive emotions linked to happiness and satisfaction are vital in fostering elements of entrepreneurship such as diversity of thinking, enhanced creativity, and optimism.

The relationship between positive emotions and entrepreneurship has also been studied from both directions of causality. The objective of the study of Naude´, Amoros & Cristi (2014) is to ascertain the impact of entrepreneurship on the happiness levels of a country and subsequently assess the influence of a happy environment on entrepreneurial activities. The results of their study show that the correlation between entrepreneurship initiatives and the overall happiness of a country follows a pattern resembling an inverted U: as national happiness rises, so does the rate of entrepreneurship up to a certain threshold, beyond which a decrease in happiness is observed alongside a decline in entrepreneurial activity. On the other hand, happiness-related emotions play a vital role in fostering diverse thinking patterns and enhance creativity and willingness to take risks, which in turn lead to greater entrepreneurial initiatives. The study of Saraiva, S. Gabriel, Sanchez, Hernandez Sanchez & Cardella (2021) reveals a strong correlation between the happiness index and entrepreneurship data, with the latter one being an explanatory factor of the happiness index. According to them, the level of entrepreneurship in a country can directly impact its overall level of happiness.

Hypothesis 3 (H3): There is a positive relationship between individual satisfaction and initiation of new enterprises.

2.4. Financial Capital and Human Capital

According to Lim, Hoon Oh & De Clerq (2016), at the individual level, financial capital and human capital play a very important role in the entrepreneurial process. Individuals with limited financial resources or a lack of formal education often face substantial challenges when it comes to recognizing and capitalizing on entrepreneurial prospects (Shelton, 2010). Excess income influences entrepreneurship by providing individuals with the resources needed to actively seek out and pursue new business opportunities. The results of the study of Lim, Hoon Oh & De Clerq (2016) reveal that individuals with higher financial resources and families with higher household incomes are more likely to pursue entrepreneurial activities, regardless of the surrounding context. Consequently, according to them, financial capital can serve as a mechanism through which individuals in higher income brackets accumulate additional wealth from new business activities, further widening the gap between them and their less affluent counterparts. The fact that household income can promote entrepreneurship regardless of institutional conditions suggests that income-based social stratification may be a persistent problem in emerging economies. According to human capital, the findings of Hunady, Orviska & Pisar (2018) strongly indicate a positive correlation between higher education and entrepreneurial engagement. Individuals with higher levels of education demonstrate a greater propensity for initiating their businesses. Moreover, this favourable impact of higher education appears particularly crucial for the establishment and sustainability of successful ventures over an extended period. According to (Van Praag & Cramer, 2001), education enhances individuals' skills and understanding, thereby increasing their awareness of business opportunities and entrepreneurial processes. But, conversely, education demands significant time commitments and also raises the likelihood of securing stable, less risky wage employment, potentially reducing interest in entrepreneurship. Many studies have demonstrated empirical evidence of a positive correlation between human capital and the establishment of new businesses. These studies have used the share of people with tertiary education as a proxy for human capital (Fotopoulos, 2014; Delfmann, Koster, Mccann, Van Dijk, 2014; Armington, Acs, 2010). Moreover, the importance of education in fostering entrepreneurship in developing countries cannot be overstated, as there are limited options for utilizing human capital effectively (Iyigun, Owen, 1998). The following hypotheses are put forward:

Hypothesis 4 (H4): There is a negative relationship between the level of family incomes and the initiation of new enterprises.

Hypothesis 5 (H5): There is a positive relationship between education and initiation of new enterprises.

3. Data and Methodology

3.1. Sampling and data collection

This study is based on secondary annual data from 2000 to 2022, focusing on Albania, an upper middle-income country as classified by the World Bank in 2022 and the World Intellectual Property Organization in 2023. Previous studies have looked at how

entrepreneurial activity in developing countries is influenced by various factors, but there is a gap in research for Albania. This study aims to fill that gap and provide valuable insights for future research. Due to the lack of databases for identifying survey samples, only secondary data is used in this study. This type of data is commonly used in similar research studies.

3.2. Variables and Data Sources

In this study, the dependent variable is the new business density rate in Albania during each calendar year. The number of new firms has been used extensively in entrepreneurship studies because they seize both the contribution they make to the economy and the risks of failure (Reynolds, 1987). In this study, the new business density variable represents the new entrepreneurial activity, and it is calculated as the number of new businesses created during a calendar year per 1'000 people. Annual data on this variable is derived from the World Development Indicators database.

We have used five independent variables to test the impact on the new business density rate: the number of families with economic assistance, the innovation index ranking, life satisfaction, tax burden, and school enrolment in tertiary education. The number of families with economic assistance in the study represents the number of families without income or with insufficient income. Data on this variable are retrieved from the Institute of Statistics (INSTAT). The innovation index ranking is represented by the ranking of the country by its capacity for and success in innovation. Data on this variable are retrieved from the World Intellectual Property Organization. The life satisfaction index represents the fact of how satisfied are Albanians with their life. This variable takes values from zero (very dissatisfied) to ten (very satisfied). Data on this variable are retrieved from Eurostat. The tax burden variable is a compound ratio that reflects marginal tax rates on personal and corporate income and the total level of taxation as a percentage of gross domestic product (GDP). Data on this variable are retrieved from the Heritage Foundation. The school enrolment in tertiary education variable represents the ratio of all enrollees in the tertiary education level to the population of the same age group. This variable is lagged by three years to measure approximately the number of students who have graduated and who are a potential part of the workforce. Data on this variable are retrieved from the World Development Indicators database.

3.3. Data analysis

To test the impact on new business density and to test the hypothesis of the study we used the ordinary least square (OLS) regression model. This multiple regression model is used widely in similar studies and helps us to understand the relation between a dependent variable and some independent variables. Before performing the mandatory steps for the analysis, we checked if the variables were normally distributed and adjusted them for seasonality in cases when this condition was not fulfilled. We used the Ramsey Reset Test to find out if this approach is appropriate. This test indicates whether the functional form of our model is correct or not.

For a complete testing of the regression model, we used the statistical software E-Views 12. Initially, we generated descriptive statistics and a correlation matrix to understand general characteristics and correlations between all variables. A crucial aspect of regression analysis includes assessing the statistical significance of the model. To achieve this, we conducted several tests:

- Multicollinearity test: We used the Variance Inflation Factors (VIF) method to examine whether a linear relationship exists between the independent variables.
- Normal Distribution test: An econometric model is valid if the residuals follow a normal distribution. We evaluated this using the Jarque-Bera test.
- Heteroscedasticity test: We checked for heteroscedasticity using the Breusch-Pagan-Godfrey test.
- Autocorrelation test: Finally, we used the Breusch-Godfrey LM Test to assess whether the model variables show autocorrelation or not.

These diagnostic tests, performed in E-Views, are necessary to determine whether the assumptions of the regression model are met or not.

4. Results

The results of the descriptive statistics (Table 3) show that the average number of new business density is 1.28 new business registrations per 1'000 people for the analyzed period. Regarding the Innovation Index, Albania ranks in the average in the 90th position. Regarding the number of families with economic assistance during the studied period is observed a large fluctuation from the minimum value of 53'982 families to the maximum value of 104'398 families. A large fluctuation is shown also in school enrollment in the tertiary education variable, from 19.8% to 66.8%. On the other hand, the life satisfaction index and tax burden index result in less volatility, while the average values are 5.05 and 89.35, respectively.

Table 3. Descriptive statistics and correlation matrix

	Descriptive statistics				Correlation matrix					
Variables	Mean	Min	Max	SD	NBD	NFEA	IIR	LSI	SETE	TBI
New business density (NBD)	1.28	0.95	1.65	0.24	1					
Number of families with economic assistance (NFEA)	84394	53982	104398	16375	-0.83	1				
Innovation Index Ranking (IIR)	90.5	80	121	10.83	-0.003	0.36	1			
Life satisfaction index (LSI)	5.05	4.51	5.86	0.41	0.06	0.13	-0.01	1		
School enrollment in tertiary education (SETE)	45.57	19.82	66.82	16.73	0.65	-0.74	-0.47	-0.41	1	
Tax burden index (TBI)	89.35	85.1	92.8	2.95	-0.78	0.78	0.20	0.18	-0.61	1

Source: Authors' calculations using E-views 12.

Based on the results of the correlation matrix shown in Table 3, we see that independent variables are not highly correlated with each other, but the correlation between two independent variables in two cases is higher than 0.7. To be sure that the results of the regression model are not disrupted by multicollinearity issues we have tested the VIF values.

The results of the regression analysis are given in Table 4. The adjusted R^2 of the regression model is 96.5%. This value reveals that the independent variables explain 96.5% of the dependent variable.

Table 4. Summary of results of regression analysis

Dependent Variable: NEW_BUSINESS_DENSITY
Method: Least Squares
Date: 04/03/24 Time: 17:18
Sample (adjusted): 2007 2020
Included observations: 14 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Number of families with economic assistance	-6.61E-06	1.56E-06	-4.225141	0.0029
Innovation Index Ranking	0.011357	0.001412	8.043093	0.0000
Life satisfaction index	0.257821	0.037169	6.936511	0.0001
School enrolment in tertiary education	0.008668	0.001429	6.066949	0.0003
Tax burden index	-0.022270	0.007120	-3.127883	0.0141
C	1.093494	0.665938	1.642036	0.1392

R-squared	0.978977	Mean dependent var	1.282941
Adjusted R-squared	0.965838	S.D. dependent var	0.248982
S.E. of regression	0.046019	Akaike info criterion	-3.021997
Sum squared resid	0.016942	Schwarz criterion	-2.748115
Log likelihood	27.15398	Hannan-Quinn criter.	-3.047349
F-statistic	74.50884	Durbin-Watson stat	2.540079
Prob(F-statistic)	0.000002		

Source: Authors' calculations using E-views 12.

The regression model's suitability and predictability were assessed using various tests (the results of the tests are given in Appendix A). The Ramsey Reset Test confirmed the linear functional form of our model. With a Variance Inflation Factor less than 5, the model was found to be free of multicollinearity. According to the Jarque-Bera Test, the residuals of our model exhibited a normal distribution. The results of the regression confirmed that the variances of the residuals were equal (validated by the Breusch-Pagan-Godfrey heteroscedasticity test). Additionally, the model showed no autocorrelation (as per the Breusch-Godfrey LM Test).

In summary, these tests indicate that the model is relevant and suitable**.** Furthermore, the explanatory variables can be used to predict the dependent variable**.** Specifically, the impact of the life satisfaction index and school enrollment in tertiary education on the new business

density is positive, while the impact of the other variables (number of families with economic assistance, innovation index, and tax burden index) is negative.

In terms of the acceptance/rejection of hypotheses, these conclusions are summarized in Table 5.

Table 5. Summary of hypothesis results

Hypothesis	Formulation	Accepted / rejected
H1	There is a positive relationship between the innovation index and the new business density.	*Rejected*
H2	There is a negative relationship between the tax burden index and the new business density.	*Accepted*
H3	There is a positive relationship between the life satisfaction index and the new business density.	*Accepted*
H4	There is a negative relationship between the number of families with economic assistance and the new business density.	*Accepted*
H5	There is a positive relationship between school enrollment in tertiary education and the new business density.	*Accepted*

Source: Authors' calculations using E-views 12.

5. Discussions

The results of the model indicate that the relation between number of families with economic assistance and new business density is negative at 99% significance level, which signifies that the higher the level of poverty, the lower the level of expenses incurred by families and consequently the lower the number of new businesses registered. The innovation index (the lower the country is in the ranking, the lower the index) has the same impact as the number of families with economic assistance on the new business density. This means that the increase in the innovation index affects the decrease in new business density. This can be explained by the reason that the growth of innovation is accompanied by the growth of online businesses, which compete and make the survival of non-online businesses difficult, but on the other hand, these businesses operate informally for a while and are not registered. The life satisfaction index is another variable included in the regression model. Results of the model indicate that the relation between the life satisfaction index and the new business density is positive at a 99% significance level. This means that an increase in life satisfaction affects the increase in people's optimism and spending, which positively affects the density of new businesses registered. Enrollment in tertiary education has the same impact as the life satisfaction index on the new business density. Since this variable is used as an approximate measure of the number of graduated students, the results of the regression model indicate that the increase in the number of graduates contributes to the increase of the new business density. The tax burden index is another variable that impacts negatively the new business density (at a 95% significance level). The increase in tax restrictions affects the reduction of the motivation of new entrepreneurs, which affects their reluctance to create a new business and thus negatively affects the density of new businesses.

6. Conclusions and Recommendations

To conclude, this research has studied the various factors that impact new business registration in Albania. The regression analysis revealed that the innovation index, tax burden, and economic assistance to families have a negative influence on new enterprise registration. Conversely, education and life satisfaction were identified as positive factors, underscoring the significance of human capital and societal well-being in promoting entrepreneurial endeavours. These findings offer valuable insights for policymakers, investors, and individuals aspiring to advance entrepreneurship and economic progress in Albania.

Drawing from the outcomes of this study, several recommendations can be proposed.

- Policymakers should concentrate on cultivating an environment that fosters innovation and entrepreneurship by supporting research and development initiatives specific to Albanian industries such as agriculture, tourism, and IT. Fostering partnerships between Albanian universities and local businesses can stimulate practical research that addresses domestic market needs. Additionally, providing targeted incentives for innovative startups in sectors like renewable energy, technology, and agribusiness would encourage entrepreneurship aligned with Albania's economic strengths.
- Government incentives to reduce the tax burden on businesses, particularly small and medium-sized enterprises (SMEs), could improve the situation. In Albania's case, introducing tax credits for startups during their initial years and creating simplified tax regulations for SMEs could significantly reduce administrative and financial barriers, making it easier to launch new ventures.
- Addressing socio-economic disparities is critical in Albania, especially in rural areas and among vulnerable groups. Extending economic assistance to disadvantaged families, such as microcredit schemes for rural entrepreneurs in underdeveloped regions, would help overcome financial barriers to entrepreneurship.
- Investing in education and training programs to enhance human capital is crucial. Vocational training, entrepreneurship-focused curricula, and digital literacy programs should be integrated into Albanian schools and universities to equip young people with entrepreneurial skills.

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