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## Technological Transformation and the Development Paradigm Shift: Challenges and Opportunities in the Digital Age

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# Editorial

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**By Assoc. Prof. Dr. Gerti Sqapi**

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*Dear readers,*

It is with great honour and a deep sense of academic responsibility that I present to you the first issue of the Journal of Economics and Technology, a scientific journal that will be published twice a year by Tirana Business University College. As Will Rogers stated in a remarkable quote, “*You never get a second chance to make a good first impression*”, the launch and presentation of the first issue of the journal to the academic and intellectual community is critical. This journal aims to represent more than just the launch of a periodic publication - it aims to be a dynamic academic platform where ideas, evidence, and critical reflections of various academics and researchers converge around the challenges and opportunities presented by our ever-changing world.

The launch of this journal marks a significant milestone for Tirana Business University College. It reflects our unwavering commitment to qualitative and socially impactful research, academic excellence, and the need to contribute to the debate on topics that generally affect the fields of economics and information technology. The journal also seeks to serve as a bridge between theory and practice, connecting academic research and the political actors and bureaucrats responsible for formulating public policies. In line with one of our most important strategic objectives as a university, internationalization, this journal also aims to serve as an international platform for insightful discussions and interdisciplinary dialogue, attracting academics, professionals, and researchers from both the Western Balkans region and the wider Western world.

The modern-days world in which we live is defined by the rapid pace of technological change. To understand and shed light on some of the challenges presented by rapid technological transformations and the zeitgeist of this world in which we live today, the main topic of the Journal of Economics and Technology’s first issue was chosen to be: “*Technological Transformation and the Development Paradigm Shift: Challenges and Opportunities in the Digital Age*”. This first issue of

the journal, which also comes as a special issue following the scientific conference held in November 2024 at Tirana Business University: *Technology Disruption: Challenges and Opportunities for Adding Value to National Economy, Businesses & Society*, brings together six carefully selected and peer-reviewed articles. They address some emerging topics which are at the heart of the technological transformation—from the impact of AI in finance and governance, the rise of GenAI in the banking sector, the evolution of digital consumer behavior, public sentiment in digital policymaking, to Albania’s readiness for EU integration through competitive clusters.

Through these contributions, we mark the beginning of what we hope will become a consistent and high-quality academic presence: a journal that will promote excellence, originality, and critical thinking.

As Editor-in-Chief of the Journal of Economics and Technology, I invite scholars from Albania, the Western Balkan region, and beyond to submit their original articles for future issues. We welcome rigorous studies, theoretical contributions, empirical analyses, case studies, and policy perspectives that reflect the interdisciplinary spirit of this journal.

I would like to thank the editorial board of the journal, the contributing authors, the reviewers, our web developer Xhezmiye Palushi, and the entire academic team at Tirana Business University College for making this first issue possible. Your dedication and hard work have set the stage for what I believe will be a long-lasting and impactful academic project.



# Remaining Future - Proof throughout the AI Revolution: How is AI Reshaping the Financial Industry and its Workforce?

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## **Abstract**

*Over the last years, the revolution of Artificial Intelligence has had a large impact at an unprecedented pace on the financial industry. As we try to understand the reasons why AI is being embraced by the financial sector at a faster rate compared to other industries, two important questions arise. How can the current and future workforce remain future proof in a time of massive technological change? Over time, millions of employees around the world will require upskilling and reskilling, to be able to keep up with the rapid changes in the workplace. In addition, in any era of change, what opportunities come with AI? Particularly, for emerging markets, integrating AI into their financial sectors is not only a measure of keeping up with advanced economies, but a golden opportunity to leapfrog conventional development stages, leading to exponential benefits. Certainly, the aim of the research is to present a clear image of the impact of AI across the financial sector - by analyzing the influence on*

*the skillset on the current and future workforce, as well as by shedding light on the market opportunities that come with this technology.*

***Kew words:** Artificial intelligence, financial industry, AI reskilling, workforce, soft skills.*

## **1. Introduction**

### *Artificial Intelligence – Rapidly Reshaping the Financial Industry*

Financial services represent one of the most traditional industries, strongly preserving their conventional practices throughout the years. Nonetheless, Artificial Intelligence is being embraced by this sector at a faster rate than many other industries. The reason for that should not come as a surprise. The banking sector's high volume of data and operations convey the perfect landscape for AI technologies.

Indeed, the adoption of AI is driven by the institution's necessities for greater efficiency, round-the-clock customer experience, as well as risk management techniques. Through raising the bar for innovation and customer satisfaction, AI transformative technologies create competitive advantages in the financial sector. (S&P Global, 2024). In addition, as Large Language Models (LLM) continue to advance and the implementation of AI increases, banks are now witnessing new levels of efficacy, personalization, and security.

Moreover, machine learning algorithms can now examine immense amounts of data, providing deeper insights into the financial markets, clients' behavior and security measures. AI technologies in banking have enhanced decision-making, streamlined customer service and overall lead to increased effectiveness (Roose, 2022). But how does AI technology look like in banking and what are its main ranges?

One of the primary areas of AI implementation in the financial sector, for most institutions, would be customer service. The reasons for that are quite simple. First, customer operations consist of voluminous inquiries through large client bases. Most people can recall institutions where they experienced good versus bad customer service and, from that, decide their future inquiries. Therefore, many financial institutions aim to convey high quality customer experience. Through AI tools, such as virtual assistants, financial institutions can now provide personalized, round-the-clock customer service (WB Research, 2024).

Certainly, the financial sector has been reaping the benefits of AI-powered personalized finance. By going through vast datasets, AI tools can offer hyper-personalized experiences for each client. That supports a large customer base that

may not be financially literate and is now able to navigate products and services, previously unknown to them. Presently, banks that do obtain such AI powered systems, allow their customers to look at a variety of metrics including - saving habits, expenditures, life events – to entail personalized suggestions and tailored support.

On the other hand, operations represent one of the most significant areas on the competitiveness of financial institutions. By using AI technologies, companies are streamlining operations and automating routine tasks, reducing human error, and optimizing various processes. Most commonly, AI provides support with tasks that tend to require manual effort and therefore, prone to human mistakes. Examples of such tasks would be data processing, reporting and evidence entries. Through the implementation of AI on their repetitive operations, financial institutions are gaining a competitive edge, allowing employees to focus on higher value tasks and strategic deeds.

Furthermore, AI supports the decision-making process within the financial industry. Through processing higher volumes of data at a greater speed, AI is providing bankers with thorough insights and analysis, to help them in making informed decisions. Certainly, AI assistants can analyze vast amounts of data in real time, supporting banking strategies in seconds. Many areas of banking profit exponentially from such tools, more precisely investment banking where time and information are crucial, especially in the trading desks.

Undeniably, AI tools are good for the banking front-business, but that does not stop there. An integral part of finance, also quite costly to maintain, is risk management. Through risk management, financial institutions safeguard capital and assets, granting financial stability at a micro and macro level. Fundamentally, financial institutions dedicate departments and many professionals to manage risks. However, through AI tools, many related tasks within risk management are being vastly automated. By employing quantum algorithms, the assessment of risks, financial or non-financial, becomes highly accelerated. In addition, AI supports by simulating various dimensions, less restrictive than the Monte Carlo model, used so-far. Professionals then use the AI-powered results to steer better their decision making and risk-management strategies.

Lastly, AI is becoming a crucial instrument in the detection and prevention of financial crime. Indeed, AI-powered tools, through the availability of vast amounts of data, manage to discern patterns related to money laundering, fraud or sanctions. In doing so, AI improves the capabilities of financial institutions in capturing criminal / counterfeit transactions, or also in preventing corruption (Shurdha & Sqapi, 2024). The implementation of AI in such sectors within the financial industry results in higher protection for their capital, as well as their customers; and less operational risks.

As we document the uses of AI implementation across the financial industry, it is important to understand that its integration comes with a wide range of responsibilities and implications. Financial institutions must establish governance groups and create vigilance on the regulatory and ethical considerations regarding AI practices. It is important to develop a hybrid analytic setting that ensures compliance, as well as eliminates biases from data, used in large language models.

Finally, while the world transitions into the future of technology, incorporating AI technologies is no longer voluntary but necessary. Through transformative initiatives across the financial industry, AI technologies are pioneering new standards of efficiency, safety and innovation. Yet, while AI is taking over various sectors and functions, one important question remains unanswered. How will AI reshape the demand for the current and future workforce? In simpler words, now that AI is taking over various work functions, what skills should humans be developing?

## **II. Artificial Intelligence and the Workforce: The Return of Soft skills**

The rapid wave of AI in various sectors raises many important questions on the skillset needed for the current and future workforce. We are at a point in history where education is no longer future proof, as AI has disrupted traditional industries and created new ones at an unprecedented pace. What kind of jobs should the next generation be trained to do? What kind of skills should the current workforce be focused on improving? In other words, the aim would be to understand the sort of competencies such fundamentally human, that in one way or another could never be replaced by an algorithm.

In the age AI, with routine tasks being automated, soft skills not only remain essential but matter now more than ever. But what do we understand with the term soft skills? Indeed, such a term was created by the US Army to distinguish interpersonal and machinery competencies. Soft skills refer to attributes that enable individuals to interact effectively with others, such as adaptability and problem-solving capabilities (Herrity, 2023). They are referred to as crucial for building strong teams, strategies and fostering a positive environment. Intrapersonal skills have continuously been essential in the workforce, but in our automated future, being a unique human strength, they hold a more significant value (Westfall, 2023).

Indeed, the AI revolution is estimated to impact nearly 400 million jobs globally, performing computation, data analysis and logic-driven tasks, with a higher efficiency than human ever could. Such technologies can not only manage the variety of repetitive tasks but also perform increasingly sophisticated

responsibilities —such as coding, writing and research —areas once considered safe from the disruptive AI waves (Kersting, 2018). 45% of such tasks will be automated in the next 5-10 years. Soft skills such as communication, emotional intelligence, and empathy will continue to exponentially grow in value, as humans work in synergy with AI. These skills are universally pertinent and allow humans to engage in social complexities, not fit for AI.

Therefore, research suggests that as organizations increasingly leverage AI technologies, soft skills become even more important for employees to stay relevant and valuable in the workplace (Marr, 2020). People need to maximize their creativity, improve critical thinking and collaboration with others. These soft-skills have been put on the back burner over the past few decades as the “hard skills” of math, science, physics, biology, and engineering-related skills took center stage.

Let’s try and dive deep to understand the reasons why soft skills will be the rising star in this new era of technology. Indeed, AI capabilities are quite constrained in terms of social and emotional interactions that require an intrapersonal perspective, such as judgement and empathy. Therefore, for the good amount of business interactions that involve negotiation, conflict resolution and critical thinking, human skills remain irreplaceable – adjacent to World Forum surveys, based on latest AI developments.

In addition, AI technologies have been generally developed to enhance existing human capabilities, through providing insights and automating repetitive tasks (Marr, 2023). Therefore, the judgement and final decision making are projected to be handled by human professionals. That allows professionals to focus on tasks that require critical thinking, problem solving and relationship management. By further developing and obtaining soft skills, employees work more effectively and get the most value from AI technologies.

Furthermore, AI poses ever-changing working environments, through evolving technologies. Intrapersonal skills such as aptitude for learning, critical thinking and emotional intelligence – allow people to adapt to the new AI technologies, as well as everchanging role requirements or transfers to other roles. Indeed, for professionals that do not obtain such intrapersonal capabilities, it may be more difficult to learn new skills or take on new assignments, as the transformation waves of AI seamlessly strike.

Finally, regardless of AI developments, companies will always need leadership and visionaries, to assess the bigger picture. Certainly, middle management roles are most probable to diminish, in the light of automation. However, strategic leadership, the genuine one, that requires vision, empathy and inspirational communication; remains an inherently human skill. As backed by World Economic Forum (2023), soft skills remain significant in leadership roles – where using AI, human professionals would successfully envision and deliver business strategies.

Therefore, all these compelling reasons built the obvious narrative that AI will indeed raise the need for a workforce that harnesses soft skills. Only through that can organizations maximize the benefits of their AI investments. Soft skills are becoming a new form of currency that grants not only job security in an ever-changing AI environment but conveys competitive edge for both the workforce and organizations. Hitherto, what are the measures that the current and future workforce could take to strengthen their soft skills? Is there more that needs to be done in terms of reskilling and upskilling?

### **III. AI and Future Workforce: Remaining Future Proof throughout the AI Revolution**

As a scholar, how can you remain future proof in a time when the workforce is being rebranded? Indeed, according to research, students are encouraged to choose certain academic areas and most importantly, obtain real world experiences through internships. Certainly, that is a measure that adds to the development of soft skills and critical thinking. Experts advise the students to embrace interdisciplinary studies as a foundation of their education. (Joshi et al, 2021). How would that look like?

Indeed, being a specialist in only one academic area may not be enough to approach the complexity of challenges of the AI ever-changing work environment. Students ought to try and be more adaptable, through acquiring a versatile skillset that combines various disciplines – STEM and social sciences – as a way of developing both soft and hard skills (Nietzel, 2024). Such cross-disciplinary programs have been exhibited in educational institutions, where science students are encouraged to take courses in humanity, environment; to address the complexity of social challenges globally – preparing a multidimensional workforce. Such programs further develop inherently human skills such as creativity and problem-solving capabilities, that are now more valued than ever.

Additionally, through engaging in internships, students are encouraged to pursue real life experiences. That would help them only in building their intrapersonal skills but also understand their strengths and what sets them apart in such an ever-changing tech-environment. Indeed, in a tech-driven world, it is the real-life perspective that increases in value and makes a difference. Through internships, students can assess their capabilities, desires as well as address knowledge gaps, or areas that may need further improvement (Esaki-Smith, 2024).

Furthermore, considering the adaptability factor, it is important that professionals never stop learning. For some people, this sort of aptitude is innate – some others need to proactively work on it, as the work market is evolving more than ever in a rapid pace. It is not only a personal responsibility, but a collective

responsibility as well, for organizations, to establish measures for their employees or students, in terms of continuous reskilling and upskilling. That way, people are equipped with the right skillset to navigate the job market or create value in their AI-assisted roles.

Are we forgetting something? The once-in-a-lifetime opportunities that come with a rapidly changing tech-environment. In the current landscape, both students and professionals lie in a vast potential of developing new technologies or start-ups. Therefore, entrepreneurial skills are to be seriously considered and extended, as part of the educators' responsibilities which now go beyond job placement. In addition, going a step further may create the need of such curriculums for saturated professionals, who are adapting to these technologies through innovative ideas and efforts.

Surely, the role of higher education would entail not only guiding scholars through the previous confined study-years, but also throughout their careers - ensuring ongoing adaptability. In contrast to AI, humans are creative, take risks and convey knowledge into deeds in the interest of better society and humankind.

#### **IV. AI and Current Workforce: Organizations and AI Reskilling**

Indeed, it has been AI innovators themselves that have initiated a new wave of AI uses in building human interpersonal skills. Companies such as Talespin and Embodied Labs are deploying engaging language models, to support healthcare workers to develop emotional intelligence, empathy, and communication skills with the patients. Through Virtual Reality experiences, these companies enable caretakers to embody the perspective and conditions of the patients, gaining deeper and more empathetic understanding.

Employers, too, should recognize the value of professional social capital where intrapersonal skills are further developed through relationships, networking and mentoring as an accelerant to workforce success and preventing occupational segregation to marginalized groups. It is important that both the educational and workforce systems are structured in a way that allows the development of both skills, soft and hard and not emphasize the efforts only on harnessing the latter. Some could argue that soft skills such as critical thinking, emotional intelligence and communication are innate. While there may be a genetic factor to such qualities being more prominent to some people, rather than others – through an engaging environment, such skills can be developed and mastered with time (Davenport & Westerman, 2023).

Surely, in the age of AI, the competitive advantage has shifted to a workforce that above anything displays strong intrapersonal skills, critical thinking and problem solving – and that can easily adapt and have an innovative mindset

to an everchanging environment. And at the end, the competitive edge will go to those educators and employers that value and cultivate such skills, as an exhibition of mastery for the new age worker or student. Indeed, in this light, prominent financial institutions have accorded supplementary training programs for relationship managers to further develop soft skills such communication and critical thinking. For instance, JPMorgan Chase runs coaching programs to help advisors seamlessly recognize customer holistic needs and provide advisory services for more complex financial products – an area where AI cannot diligently deliver.

Other than investing in upgrading and developing the soft skills of their workforce, companies are now taking reskilling as a wider-level challenge. According to recent research from Harvard Business, most of the companies interviewed admitted that reskilling is a process affected by a number of factors and players. Therefore, when thinking about reskilling, financial institutions shall harness the harmony of various players, part of the AI revolution.

As mentioned in the above analysis on the return on soft skills, one method on reskilling, yet not limited to intrapersonal skills, would be the partnership programs between industries and academia. Such collaborations would not be restricted only to the upcoming workforce but also for the existing workforce that needs to adjust their skillset with AI integration. Certainly, these sorts of collaborations with educational institutions entail great benefits for companies, in terms of their reskilling efforts. Indeed, organizations such as Amazon and PWC are largely investing in developing AI capabilities for their employees, through cooperation with educational institutions. Amazon has already launched its own Amazon Machine Learning University, which trains its employees on machine learning skills, regardless of their background.

On the other hand, governmental administration must support AI reskilling through various measures. One way could be through the launch of AI literacy programs, a public investment in reskilling the workforce according to the market demands. Such initiatives would require adequate funding and outreach to the public, as well as concrete measures of success. Another aspect from the public governments could be the establishment of policies that regulate the reskilling requirements that companies need to provide to their workforce, upon AI integration. In the same manner, governments and community-based organizations should work in connecting company needs, not only within certain academic or professional outreaches, but also throughout marginalized talent groups.

Certainly, some researchers believe that industry-wide reskilling programs may seem to be more efficient and homogenous than individual ones. Therefore, instead of surfing the waves of AI on a competitive lens, companies could cooperate by creating joint training for their workforce. Such efforts would not only support seamless industry-wide infrastructure but also be less costly than

tailored courses. In addition, the AI reskilling on industry-wide level, could also support companies pool the knowledge and resources – which are so new that individual companies may not have yet the knowledge or capacity. Another aspect would be the interchangeable talent pool among their participants, bringing strategic value to each other.

Indeed, efforts in retraining are still under the making. Many companies have already developed a proactive approach on reskilling, considering the fast and transformative impact of AI on their book of work and human resources. Yet, as the AI practices across industries are still new at large, there are limitations which encumber even the most proactive of endeavors. There is still uncertainty in terms of what is considered a successful reskilling outcome and how it could be respectively measured.

In addition, there may be reluctance in pioneering such programs or coalitions, mostly related to costs and conservative management cultures. Yet, AI is an inevitable truth which sooner or later will have to be embraced by institutions to stay relevant and competitive. Therefore, to adapt to such technological changes, companies will be obliged, along these lines, to establish reorientating programs. Such initiatives may be first in experimental and then move towards a more sustainable, long-term way. Nonetheless, as history has taught us, the pioneers of this technological revolution will be the ones remembered and rewarded.

## **V. AI and an Era of Opportunities for the Workforce in the Emerging Markets**

Certainly, as we analyze the enormous impact of AI, it becomes obvious that this technological revolution entails a golden era of opportunities for emerging markets. Indeed, emerging markets must adapt to AI technologies to prevent being left behind by developed economies, which would then further deepen the gap in skills and wealth (Google Research, 2024). However, integrating AI is not only a measure of keeping up with advanced economies, but a golden opportunity for them to leapfrog conventional development stages, leading to exponential financial progress.

Undoubtedly, AI presents numerous opportunities for emerging markets in various sectors. The countries part of this group is represented by a much younger population, keen on technology and innovation. Through initiatives from government, academia and relevant industries, AI reskilling creates an untapped workforce market. The AI reskilled workforce can revolutionize emerging economies and create a competitive and innovative edge to themselves. On the other hand, AI tools can greatly empower private sector initiatives, establishing a vibrant start-up scene for young entrepreneurs.

Indeed, AI systems can significantly decrease entry hurdles and operating costs for entrepreneurs, enabling them to develop innovative and scalable business models that can catapult traditional and costly approaches. That being said, tangible initiatives with potential would first be applied in the financial services, allowing access to credit and financial products to a broader part of the population. On top of that, AI would be improving educational functions through personalized learning, optimize medical care through disease detection – leading to a wider economic and social development in emerging markets.

Furthermore, through its fraud detection capabilities, AI technologies would support in increasing transparency within governments, improving controls on corruption and theft and greater awareness among the citizens. In other prominent sectors, common for emerging markets, such as tourism, the application of AI can enhance customer experience through personalized recommendations and efficient service delivery.

Indeed, this assessment is such a scratch on the surface to depict the opportunities that AI practices could offer to emerging markets. These opportunities, however, will not materialize involuntarily. Harnessing the power of AI requires proactive cooperation among institutions, and strong initiatives in reskilling, from various players.

## VI. Conclusions

- Artificial Intelligence is conquering the financial industry at a faster rate than many other industries. Indeed, it is the large volume of data and operation that conveys a perfect landscape for the use of AI.
- AI systems provide deeper insights on the financial markets, clients behavior and security measures, as well as offer round-the-clock customer experience, entailing greater efficiencies for financial institutions. However, these rapid changes impact thoroughly the workforce and raise many important questions on the skillset needed for the current and future workforce.
- In the age of AI, with routine tasks being rapidly automated, soft skills become even more important for employees to stay relevant and valuable in the workplace. Indeed, AI capabilities are quite constrained in terms of judgement and empathy, as they have been merely developed to enhance human scientific capabilities. Therefore, people need to maximize their creativity, critical thinking and collaboration with others. For the future workforce, remaining future proof at a time where businesses are being rebranded is a process that requires the development of versatile skillset, combining various disciplines including STEM and social sciences. Such cross-disciplinary programs cultivate both soft and hard skills, preparing a multidimensional workforce.

- For the existing workforce, reskilling is a process affected by several factors and players. As the competitive advantage has shifted to a workforce that above anything displays strong intrapersonal skills, critical thinking and problem solving - the competitive edge will go to those educators and employers that value and cultivate such skills.
- Prominent financial institutions have accorded supplementary training programs, in cooperation with academia, government and industry-wide establishments. Finally, as we have analyzed the impact of AI in the workforce, other important features are the prospects that come with such technology, especially for the emerging markets. Indeed, integrating AI is not only a measure of keeping up with advanced economies, but a golden opportunity for them to leapfrog conventional development stages and to grow exponentially.
- Countries, part of this group, are represented by a much younger population, keen on technology and innovation where AI reskilling could create an untapped workforce market. Such workforce can revolutionize emerging economies and greatly empower private sector initiatives, establishing a vibrant start-up scene for young entrepreneurs. At the end, this is a time of change and opportunities that both economies and people should steadily embrace, no matter how overwhelming it may seem due to its haste. As the philosopher Heraclitus once said: “*There is nothing permanent, except change*”!

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# The Role of Artificial Intelligence in Enhancing Transparency and Curbing Corruption in Public Procurement Processes: The Case of Albania

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## Abstract

*The procurement of goods and services by public institutions, commonly known as 'public procurement,' is an important element of the market economy (Naudé & Dimitri, 2021). In most OECD member countries, public procurement accounts for a significant percentage of Gross Domestic Product (GDP), with an average around 10-15% of GDP (OECD, 2015). In Albania's case, based on official data from Albanian institutions such as the Ministry of Finance, INSTAT, as well as regular public procurement forecasts and the European Commission's Progress Report, the public procurement market in Albania represented approximately 9.4% of GDP in 2022, compared to 10.7% in 2021 (EU Progress Report, 2023). Even though public procurement constitutes only around 10% of Albania's GDP, it still represents a*

*sizable portion of public spending, therefore its effective use is essential. This study analyzes how artificial intelligence (AI) can improve public procurement's efficiency and transparency while also assessing AI's capacity to identify and prevent corruption and illicit conduct. Public procurement, a key tool for innovation and meeting the needs of public administration, is an area where AI applications have considerable potential to drive positive changes (Obwegeser & Müller, 2018). However, the use of AI in these areas also faces ethical and regulatory challenges, including invasive surveillance, discrimination, and data misuse (Bostrom, 2014; Dafoe, 2018). This study will draw on literature on innovation and public procurement to address issues such as enhancing transparency and curbing corruption in public procurement processes*

***Key words:*** *Public Procurement, Artificial Intelligence, Innovation, Transparency, Curbing Corruption, Albania.*

## **I. Introduction**

The procurement of goods and services by public institutions, commonly known as the 'public procurement system', is an important element of the market economy (Naudé & Dimitri, 2021). It is gaining scholars and researchers attention as a powerful tool for driving innovation and stimulating economic growth (Obwegeser & Müller, 2018). Public procurement accounts for approximately 10-15% of the Gross Domestic Product (GDP) in OECD countries and represents a significant segment of national economies (OECD, 2015; Naudé & Dimitri, 2021). In Albania's case, based on official data from Albanian institutions such as the Ministry of Finance, INSTAT, as well as regular public procurement forecasts and the European Commission's Progress Report, the public procurement market in Albania represented approximately 9.4% of GDP in 2022, compared to 10.7% in 2021 (EU Progress Report, 2023). Even though public procurement constitutes only around 10% of Albania's GDP, it still represents a considerable portion of public spending, therefore its effective use is essential from the public interest viewpoint. This study analyzes how artificial intelligence (AI) can improve public procurement's efficiency and transparency while also assessing AI's capacity to identify and prevent corruption and illicit conduct or practices.

Scholars and researchers have increasingly recognized the potential of public procurement as a demand-side innovation policy, especially in response to the economic challenges post-2008 global financial crisis, where fostering aggregate demand and high-tech employment became crucial for long-term industrial growth and competitiveness (Crespi & Guarascio, 2018). In recent years, however, policymakers have increasingly turned to demand-side strategies like public

procurement of innovation, which could channel public spending into innovative products and services, thereby encouraging R&D investment—especially in areas with limited private demand, such as green energy, transport, and healthcare (Edler & Georghiou, 2007; Kremer & Glennerster, 2004). This approach, appealing in times of budget constraints, aims to create significant incentives for innovation with minimal extra costs (OECD, 2016). In the past, procurement regulations frequently hindered innovation by enforcing strict, extremely detailed tender specifications that prohibited bids on undeveloped goods or technologies. In order to encourage innovation through more flexible tender calls that give functional specifications and life-cycle costs priority, the European Union revised its procurement directives in 2014 after realizing these limitations. This new framework, known as Public Procurement with Contracted Innovation (PPCI), allows for greater adaptability, encouraging suppliers to propose creative solutions and contributing to a more dynamic public procurement landscape (Czarnitzki, Hünermund & Moshgbar, 2020).

In this way, through public procurement, policymakers can stimulate demand-driven innovation, enhance high-tech sector growth, and strengthen competitive ‘national champions’, all while contributing to broader social goals (Crespi & Guarascio, 2018). Furthermore, governments seeking to address societal issues and shape strategic industries have found that public procurement is an essential policy pillar. Governments can promote industrial renewal and boost national competitiveness by strategically directing demand to industries with high technological intensity (Crespi & Guarascio, 2018). The role of public procurement in promoting innovation is particularly evident in the context of demand-driven policies that put a high priority on environmental responsibility and sustainable development, such as the green energy initiatives. This targeted approach aligns well with the constraints of public budgets, as it enables policymakers to stimulate innovation without extensive new funding by encouraging private firms themselves to invest in research and development (R&D) (Czarnitzki, Hünermund & Moshgbar, 2020). In order to optimize the innovation impact of public procurement, policymakers need to carefully consider sector-specific dynamics and the level of market openness in their strategies. This is because the effectiveness of public procurement as an innovation tool can vary by sector (Lenderink, Halman, & Voordijk, 2019; Crespi & Guarascio, 2018). These insights highlight PP’s potential as a multi-dimensional policy instrument that not only outgrows economic activity but also supports long-term social and environmental objectives.

This paper is organized into several sections to provide a comprehensive exploration of public procurement as an innovative policy tool. First, the literature review in the next section discusses the difficulties caused by a lack of uniform terminology and dispersed research while outlining the increasing

significance of public procurement in promoting innovation. The necessity of a unified framework to strengthen the role of public procurement in innovation and economic growth policy is also highlighted in this section. Following this, the methodology section through the comparative method will examine leading examples from Europe, where public procurement has been more strategically implemented to drive technological advancement and sectoral innovation. This section reviews policy measures adopted by advanced European countries and analyzes how their approaches to public procurement have supported sustainable growth, competitiveness, and industrial renewal. The Albanian experience with innovation and public procurement analyzed as a case study will discuss then the Albania's journey with public procurement as a demand-side innovation tool, identifying key challenges and opportunities specific to the country's economic context. This section considers Albania's current PP practices, regulatory environment, and the potential for adopting lessons from more advanced European counterparts. In the conclusion and recommendations section, the results are summarized, and practical suggestions are made for Albania to improve its public procurement framework in order to promote innovation, boost sectoral competitiveness, enhancing transparency and ultimately, to contribute to sustainable development.

## II. Literature Review

Despite the extensive literature and research on public procurement, inconsistent terminology and fragmented approaches have hindered a unified understanding of its role in innovation policy (Obwegeser & Müller, 2018). A comprehensive framework developed by Obwegeser and Müller (2018) categorizes PP research into three streams: 1) innovations within the procurement process, 2) innovation of public services through procurement, and 3) the use of procurement as a demand-side innovation policy tool. This categorization seeks to bridge terminology gaps and illuminate research and practical opportunities for PP as an innovative driver.

The literature on public procurement and innovation has increasingly focused on how procurement practices contribute to, or hinder, innovation within public sector services, especially in light of the directional shift in innovation policy that emphasizes the social purpose of innovation. This policy shift has heightened interest in how procurement may stimulate innovation indirectly, especially in innovation-dependent sectors like healthcare (Miller & Lehoux, 2020). While public procurement can foster innovation as a secondary effect of other policy goals, this link is often underexplored, particularly as research on innovation tends to focus on broader, macro-level impacts and on sectors with intense R&D activities. Less is known about the specific mechanisms through which procurement

directly influences innovation at the operational level, particularly within the day-to-day practices of procurement offices (Miller & Lehoux, 2020). The (mis) understanding of the function of procurement offices, which are typically viewed as intermediaries for user and vendor requirements rather than active participants which may shape the innovation outcomes, represents a substantial gap in the literature in this field. Procurement offices may, however, take a much more proactive role, according to new research in innovation policy and the developing field of valuation studies. These studies indicate that procurement officers' skills in implementing and administering purchasing processes can profoundly influence the outcomes of innovation policy (Miller & Lehoux, 2020).

The concept of using public procurement as a tool for encouraging innovation is rooted in the fact that governments are major buyers of goods and services (Czarnitzki, Hünermund & Moshgbar, 2020). This highlights how public procurement could be a powerful lever for fostering innovation, given its scale compared to dedicated Research & Development (R&D) spending. When governments strategically choose innovative products and services, their large-scale purchases can help drive technological advances and encourage the development of new solutions across various sectors (Czarnitzki, Hünermund & Moshgbar, 2020). In the German public procurement, it has been studied according to Wegweiser GmbH (2009) To understand how much public procurement could drive innovation, Wegweiser GmbH (2009) studied government contracts and grouped them by product type. They found that around 10% of these contracts, worth about EUR 25 billion, involved “high-tech” products, which could be used to promote innovation. This means that the potential of using public procurement to support innovation is about ten times greater than the funding the government provides directly to businesses for R&D (Czarnitzki, Hünermund & Moshgbar, 2020).

**FIGURE 1:** Public Procurement Impact on Innovation  
(Czarnitzki, Hünermund, & Moshgbar, 2020)



However, not all research agrees with these results, and the full potential of public procurement to foster innovation is not yet fully understood (Obwegeser & Müller, 2018). Research in this field is still relatively new and spans multiple disciplines. For example, the field known as “public technology procurement,” is

part of the broader set of policies aimed at encouraging innovation. Although there have been in-depth studies, researchers have noted that current approaches focus too much on high-profile examples (such as the internet and semiconductors), which overlook how public procurement can drive innovation in everyday goods and services (Obwegeser & Müller, 2018). In the EU and other regions, policies are increasingly promoting public procurement of innovation (PPI) to boost company R&D, set new standards, accelerate technology adoption, enhance public services, and address key objectives such as environmental and social sustainability. Due to its economic impact and need for innovation, the healthcare sector has been a primary focus for these efforts (Miller & Lehoux, 2020). In Europe, interest in demand-side innovation began with various reports and policy documents highlighting the importance of combining demand-side tools with supply-side measures to meet socioeconomic and R&D goals. These documents from the European Commission and other organizations stressed that both approaches are essential for driving innovation and achieving (Lenderink, Halman, & Voordijk, 2019). The role of procurement in driving demand-based innovation has become more significant with a shift in innovation policy toward purposeful goals. To tackle large-scale issues, there's now a push for "mission-oriented" or "transformative" policies that focus on societal needs and practical applications of innovation, rather than just producing more innovations. This approach centers on creating innovations that address real-world challenges and improve societal outcomes (Miller & Lehoux, 2020). Public procurement, along with regulations and standards, has become a key part of Europe's innovation policy. While much of the research and policy focus comes from Europe, other countries like United States, Japan, South Korea, Australia, China, India are also exploring demand-driven innovation policies through public procurement (Lenderink, Halman & Voordijk, 2019)

Public procurement, a key tool for innovation and meeting the needs of public administration, is an area where AI applications have considerable potential to drive positive changes (Obwegeser & Müller, 2018). This technology can assist not only in identifying corrupt practices but also in developing new and improved procurement processes, including: 1) public procurement for innovation, which addresses how public procurement can foster innovation; 2) public procurement of innovation, which explores how public services can be innovated; and 3) innovative public procurement, which examines how public institutions can procure innovatively (Naudé & Dimitri, 2021). However, the use of AI in these areas also faces ethical and regulatory challenges, including invasive surveillance, discrimination, and data misuse (Bostrom, 2014; Dafoe, 2018). This study will draw on literature on innovation and public procurement to address issues such as inequality and strict control in public processes, suggesting that AI can help balance efficiency and innovation to meet secondary policy goals, such as

supporting SMEs and promoting sustainable public procurement (OECD, 2019). Google CEO Sundar Pichai has called Artificial Intelligence (AI) possibly the most significant advancement humanity has ever created, even more transformative than electricity or fire (Naudé & Dimitri, 2019). AI is expected to be highly disruptive, reshaping many aspects of life. Virtual assistants like Amazon's Alexa, Apple's Siri, and Microsoft's Cortana simplify online shopping, while automated vehicles from Tesla and Uber promise safer, less congested travel. Google Duplex's ability to make calls with a human-like voice stirred controversy. AI also enhances energy efficiency in homes, improves medical diagnoses, aids in developing new drugs, and assists in surgeries, making tasks "easier, cheaper, and more abundant" (Naudé & Dimitri, 2019).

While much of the literature on public procurement of innovation (PPI) focuses on national programs, nearly half of public procurement in OECD countries is handled by local or regional governments. In highly decentralized countries like Canada, this share is even higher—87% of procurement spending is at the subnational level. In healthcare, local governments are responsible for a significant portion of spending, such as 77% in Canada, where healthcare regulation and services fall under provincial authority (Miller & Lehoux, 2020). In these local and sector-specific areas, which are often outside the control of innovation ministries, procurement may not be easily aligned with innovation goals. However, sectoral objectives sometimes naturally lead to innovative outcomes, particularly in fields with a high need for innovation. Often, these innovations are not cutting-edge technological breakthroughs but are improvements or adaptations of existing solutions, or even non-technological changes. Furthermore, many examples of innovation resulting from procurement happen unintentionally as part of routine purchasing rather than through a deliberate effort to drive innovation (Miller & Lehoux, 2020).

### 3. Methodology

In the literature, several terms are used to describe how public procurement can drive innovation in the private sector. Unlike "innovative procurement" (like e-procurement), which aims to improve the procurement process itself, these concepts focus on encouraging innovation in private companies. However, these terms vary significantly based on

- The purpose behind using public procurement to stimulate innovation,
- What counts as innovation, and
- The approaches and methods included in each concept's definition (Lenderink, Halman & Voordijk, 2019).

In this study, we employ a mixed-methods approach, combining quantitative analysis of public procurement data with qualitative insights from existing literature and policy documents. Given the varying definitions and approaches to innovation through public procurement, this methodology is designed to analyze both the economic significance of public procurement in Albania and the potential of artificial intelligence (AI) to enhance transparency and efficiency, and to curb corruption.

### *Data Collection*

In order to measure the extent of public procurement and evaluate its economic impact in Albania, data were gathered from national sources, such as the Ministry of Finance of Albania, INSTAT, the public procurement forecasts, as well as European Commission Progress Reports. The data collected from these sources provides us a baseline for assessing the possible effects of AI-enhanced procurement procedures through allowing a year-on-year comparison of public procurement's share of GDP in Albania.

### *Analysis Framework*

Using case studies and examples from OECD member countries, a qualitative evaluation of current AI applications in their public procurement was conducted. This study identifies the best practices and potential pitfalls by concentrating on industries where Artificial Intelligence has been successfully implemented to improve procurement processes. Using frameworks that weigh the advantages of AI against the risks associated with equality, privacy, and regulatory compliance, ethical considerations are also examined. However, it is important to assess that the scope of this study is limited to Albania, with comparisons drawn to OECD practices to highlight generalizable insights and other context related factors. Although quantitative analysis sheds light on the economic effects, the qualitative findings in this study are based on case studies and literature, which may restrict how broadly the conclusions can be applied/ can be generalized for other countries. The mixed-methods approach employed in this study enables us to present a comprehensive analysis of the potential effects of Artificial Intelligence on the public procurement system in Albania, by shedding light on the advantages and moral dilemmas of introducing AI-driven procurement processes to enhance transparency and to curb corruption in this sector.

## 4. Findings / Results

One important recommendation made by the OECD's guidelines for the implementation of artificial intelligence is that governments should support AI research with long-term, consistent public investments while simultaneously promoting private sector participation (OECD, 2019). This dual investment approach aims to address the complex ethical, legal, and social issues that artificial intelligence raises in addition to encouraging innovation in its technical aspects. These regulations aim to guarantee that developments in AI are consistent with ethical principles and societal values by encouraging interdisciplinary research. Furthermore, considerable effort is invested in developing and sustaining open science projects, which encompass publicly available resources such as open-source tools and datasets. These tools are designed to foster cross-sector collaboration, enabling researchers and developers to develop transparent, interoperable, and ethically sound AI solutions. Importantly, the findings show that such open resources should be carefully designed to avoid harmful biases, respect privacy, and improve interoperability, which are critical to establishing AI systems that are both fair and inclusive (OECD, 2019). These policies seek to promote standards and interoperability in the field of artificial intelligence by laying the basis for a collaborative research environment. This is crucial for creating confidence in Artificial Intelligence technologies and making sure they can be scaled to different industries and applications, including Small and Medium Enterprises. To address the ongoing problem of corruption, Albanian Prime Minister Edi Rama suggested in 2022 the idea to incorporate artificial intelligence (AI) into the nation's procurement processes. This publicly stated objective is in line with the broader effort to meet EU standards for governance and public administration. The findings in this study highlight both the potential advantages and the challenges specific to the Albanian context in implementing AI within public procurement.

Albania has announced plans to develop a new, AI-driven model for public procurement, which aims to be 95% automated and fully transparent. Albania's Prime Minister Edi Rama has repeatedly articulated the government's ambition to include AI in tackling corruption within public procurement (Karaj, 2024). This initiative was outlined by Prime Minister Edi Rama even during his address at the 79th session of the United Nations' General Assembly. In his speech titled "*Dialogue for the Digital Future*", Prime Minister Rama emphasized the significant benefits of digital technology for developing countries, particularly in fostering greater efficiency and transparency in governance (Kadyrzhanova, 2024). He emphasized the potential of digital advancements, such as Artificial Intelligence, to play a crucial role in Albania's ongoing efforts to modernize its public

administration and accelerate its European Union (EU) membership negotiations (Kadyrzhanova, 2024). As part of this broader digital transformation, the Albanian government transitioned most public services, including tax payments from citizens and businesses to the e-Albania portal in May 2022. This shift to online services resulted in the closure of in-person service windows at government offices and other institutions. Rama pointed out that the public has seen an apparent improvement in accessibility to government services and a significant reduction in queues as a result of this shift. The government's strategy to increase efficiency and customer service, while also aligning itself closer to EU standards, includes a move toward a 95% online service model.

The key objective is to reduce the scope for corrupt and informal practices by automating the processes, enhancing transparency in the whole process, and providing real-time data analytics to monitor bids, contracts, and procurement notices (Karaj, 2024). Although Prime Minister Rama has acknowledged that Artificial Intelligence might not completely eradicate corruption, his claim that it could "neutralize a lot of the infiltration" of corruption and informal practices that are widespread in the Albania society and in the operation of the state institutions (Sqapi, 2001; Sqapi & Shurdha, 2025). This objective indicates the government's confidence in the transformative power of technology. Notwithstanding these assertions, the Albanian Prime Minister, Edi Rama, has not offered any specific explanations for the precise methods and mechanisms through which Artificial Intelligence would be applied in the public procurement system in Albania. Experts are concerned because it is unclear how AI will be incorporated into the procurement process and in which areas it will focus (Karaj, 2024). Prime Minister Rama did, however, acknowledge the possible dangers connected to the extensive use of technology. He mentioned the February 2023 cyberattack on the Institute of Statistics in Albania, which was attributed to a hacker group supported/backed by the Iranian government. Concerns regarding the vulnerabilities in Albania's digital infrastructure were raised by this attack, which affected 40 computers and compromised multiple systems. Prime Minister Rama highlighted the importance of leveraging technology's benefits notwithstanding the risks, by pointing out that, with the correct safeguards in place, such as preventing misuse and maximizing its positive potential, technology could be a positive force in creating a more transparent and efficient public sector.

In conclusion, while Rama's government is making strides in digitalizing public services and exploring the role of AI in public procurement, cybersecurity challenges remain a significant concern. The government must strike a balance between embracing the digital future and ensuring the security and integrity of its technological infrastructure to protect both the country and its citizens from potential harm. The government's proposal to utilize AI in public procurement is situated within this broader context of anti-corruption efforts. However, the

pervasive nature of corruption, combined with the lack of a comprehensive approach to addressing underlying systemic issues, raises doubts about the effectiveness of technology alone in solving the problem. The challenge for the Albanian government is not only to introduce AI but also to ensure that its implementation addresses the root causes of corruption, such as weak institutional frameworks, political influence, and insufficient oversight mechanisms (Karaj, 2024).

## 5. Discussions

Even though Artificial Intelligence (AI) has the potential to improve data analysis, reduce manual labor, and facilitate real-time decision-making, experts have pointed out a number of issues that are unique to the Albanian context.

### *a. Data Management and Quality*

Albanian local experts note that data management remains a significant issue in Albania, particularly at the local level (Karaj, 2024). Effective Artificial Intelligence implementation depends heavily on the availability of high-quality, reliable data, which is currently lacking in many parts of the Albanian public administration. The argument here is that Artificial Intelligence's tools designed to evaluate procurement processes may be biased or ineffectual due to the lack of robust data systems. Furthermore, the capacity of Artificial Intelligence to identify inefficiencies or fraudulent activity may be impacted by the caliber and precision of the data gathered for procurement.

### *b. Legal, Regulatory, and Operational Concerns*

The implementation of Artificial Intelligence in the public procurement system can also face legal and regulatory challenges. Many experts highlight concerns around cybersecurity, data privacy, and potential biases in Artificial Intelligence algorithms (Karaj, 2024). In the context of public procurement, where transparency and fairness are crucial to maintaining public confidence, these issues are particularly sensitive. To ensure that privacy rights are upheld and that AI systems are not used to reinforce preexisting inequalities and biases, Albanian legal frameworks must change and evolve in order to reflect Artificial Intelligence in the procurement system. Furthermore, the absence of precise legal requirements for the use of Artificial Intelligence in the public procurement system begs the question of how to strike a balance between accountability and innovation. Another problem is that of making sure Artificial Intelligence systems adhere to EU laws, which Albania is striving to do as part of its EU accession process.

### *c. Institutional Capacity and Expertise*

The absence of adequately trained staff is one of the biggest obstacles to integrating AI into public procurement. Recruiting skilled professionals who can manage and operate AI systems, is a challenge for both the public institutions and private sector. In Albania, the public sector in particular struggles with human resource shortages and limited technical expertise, which impedes the effective implementation of AI-driven innovations. Researchers and experts suggest that addressing these gaps would require substantial investment in training programs and professional development, as well as efforts to attract talent with expertise in AI and data science. However, the shortage of skilled workers may persist as a challenge, especially if Albania does not rapidly develop its education and training infrastructure in these fields.

### *d. Potential Benefits of AI for Public Procurement in Albania*

Despite these challenges, several advantages exist for using Artificial Intelligence in Albania's public procurement processes. Artificial Intelligence can automate repetitive tasks and thus it can reduce manual errors and improving operational efficiency. Moreover, Artificial Intelligence's data analytics capabilities can provide real-time insights into procurement trends, identify potential risks of fraud, and offer predictive analysis that could prevent abuses before they occur. For example, Artificial Intelligence could be used to detect anomalies in bid submissions, flagging irregularities that might indicate corruption or fraud. By automating the monitoring of procurement activities, Artificial Intelligence could also streamline compliance with legal and regulatory requirements, reducing the burden on human oversight.

Furthermore, Artificial Intelligence's ability to process large datasets could make public procurement more transparent, enabling greater public access to procurement information and fostering a culture of openness in government operations. This could help restore trust in the procurement process and support efforts to align with EU standards for public administration. Given the complexities and challenges identified, Albania should initiate small-scale pilot projects to assess the feasibility of Artificial Intelligence in public procurement. These pilot initiatives could focus on specific areas where Artificial Intelligence's impact could be most immediate, such as contract monitoring or bid analysis, before expanding to broader procurement processes. It is also essential for the Albanian government to invest in data infrastructure, ensure legal and regulatory frameworks are updated to address AI's unique challenges, and provide targeted training for public employees.

Additionally, it would be prudent to involve multiple stakeholders, including international partners, technology experts, and civil society organizations, in the

development and oversight of AI initiatives in public procurement. The use of AI in public procurement in Albania holds considerable promise in addressing issues of corruption and inefficiency. However, successful implementation will depend on addressing the country's data management issues, establishing robust regulatory frameworks, and overcoming the shortage of skilled personnel. By taking a cautious, step-by-step approach, Albania can leverage AI to modernize its procurement processes and move closer to its EU integration goals while maintaining public trust in the system.

## 6. Conclusions / Recommendations

In conclusion, the potential for Artificial Intelligence to revolutionize Albania's public procurement processes is significant, as outlined by the government's plans for a 95% AI-based model. This initiative, aimed at enhancing transparency and reducing corruption, aligns with Albania's broader digital transformation goals and its drive for European Union integration. Artificial Intelligence promises to streamline procurement, improve efficiency, and provide real-time data analytics to monitor bids and contracts, which could help address long-standing issues of corruption and inefficiency. However, the successful implementation of Artificial Intelligence in public procurement faces a number of challenges. These include the need for robust data management systems, addressing legal and regulatory concerns, and overcoming the shortage of skilled personnel in both the public and private sectors. Data quality is a critical issue, as effective Artificial Intelligence tools depend on accurate and reliable data, which remains a challenge in the Albanian public administration. Furthermore, there are concerns about the potential biases in Artificial Intelligence algorithms, data privacy, and the need for legal frameworks that align with EU standards. Institutional capacity is another significant barrier, as Albania currently lacks the necessary expertise to manage and operate Artificial Intelligence systems effectively. Addressing this gap will require substantial investment in training and professional development, as well as the creation of a supportive environment for Artificial Intelligence innovation.

Despite these challenges, the potential benefits of Artificial Intelligence for public procurement in Albania are undeniable. Artificial Intelligence can automate routine tasks, enhance data analysis capabilities, and improve the transparency of procurement activities, which could foster greater public trust and alignment with EU standards. Albania should initiate pilot projects to assess Artificial Intelligence's impact on specific areas, such as contract monitoring or bid analysis, before expanding to broader procurement processes. Additionally, the government must invest in data infrastructure, update legal frameworks, and ensure that AI initiatives are developed and overseen with input from multiple stakeholders, including international partners and civil society organizations.

In sum, while the implementation of Artificial Intelligence in Albania's public procurement system holds great promise, its success will depend on overcoming the country's existing challenges. By taking a cautious, step-by-step approach and addressing key obstacles such as data quality, regulatory frameworks, and human resource gaps, Albania can harness the transformative potential of Artificial Intelligence to modernize its procurement processes and enhance transparency, paving the way for a more efficient and corruption-resistant public sector. Moreover, Albania's commitment to using Artificial Intelligence in public procurement aligns with its strategic goals for digital transformation and EU integration. The introduction of AI-powered systems could foster greater accountability and promote a culture of openness within government operations. By offering real-time access to procurement data and analytics, Artificial Intelligence can empower citizens, businesses, and civil society organizations to scrutinize government spending, thus increasing public trust in the procurement process. This transparency could be crucial in reducing the influence of political factors and vested interests that have traditionally hindered fair competition in procurement procedures. Furthermore, as Albania seeks to harmonize its public administration with EU standards, the use of Artificial Intelligence could be a key step in demonstrating its commitment to modernization, efficiency, and good governance.

However, it is essential to acknowledge that the path to Artificial Intelligence integration is not without its challenges. In addition to addressing the technical and infrastructural challenges, the Albanian government must also work towards fostering a broader societal understanding of AI's potential benefits and risks. Public engagement and awareness campaigns could play a vital role in building trust and garnering support for AI-driven initiatives. Additionally, the government must ensure that Artificial Intelligence systems are not only technically sound but also ethically grounded, taking into account potential biases and ensuring that the systems are fair, inclusive, and transparent. Only through a well-rounded approach—one that integrates technology, regulation, and public participation—can Albania fully capitalize on Artificial Intelligence's potential to revolutionize public procurement and bring about long-term positive change in governance.

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# Gen-AI and Cards Payments Transformation in the Albanian Banking System

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## **Abstract**

*Artificial Intelligence (AI) has transformed products and services in the banking sector, offering fast and convenient opportunities to customers by enhancing efficiency, specifically for card payments, and has taken the organizations through several stages of digitalization. Its impact is no longer a futuristic concept, but a transformative reality, leading payment methods & processes in various aspects. Digital technology's development in Albanian banking industry, and its deployment in improving customer experience payment's operational process, fraud modules and cybersecurity, is drastically offering to customers a new products and services' model. Nowadays, performing a payment with a Debit and Credit Card in Albania is easier and more convenient than a couple of years ago. Customers have embraced the new fast trends of cards payments, and following this trend, all stakeholders, including financial institutions and technology providers, have their prior interest in new payment platforms investments. This paper aims to provide through a comprehensive overview the actual and expected card payments' landscape in Albania, highlighting*

*AI's innovative benefits, trying to understand customer perception while using these services, and underline the challenges of its acceptance, also underline considerations for its future growth and responsible use. Additionally, ethical considerations and regulatory implications surrounding AI adoption in Albanian Banking Industry should be discussed, emphasizing the importance of AI implementation and customers protection.*

**Key Words:** *Artificial Intelligence, Banking Industry, Products & Services, Cards Payment Industry, Debit & Credit Cards, Tech Companies.*

## **I. Introduction**

The rapid evolution of Artificial Intelligence (AI) during the latest years, a journey that started with the advent of internet, is reshaping the banking industry, with card payment sector being no exception. Banks, acting as technology providers, are heavily focused on technological and operational developments to keep up with the rhythm of changes, guaranteeing fast and real time platforms to perform card payment and the convenience that AI-driven services bring to their clients' banking experience. As digital transactions are becoming increasingly prevalent, the integration of AI technology has brought significant enhancements to the payment process, influencing both operational efficiency and customer experience. From personalized marketing strategies to real-time fraud detection, AI is transforming how financial institutions and businesses overall interact with customers and, on the other hand, how consumers engage with payment systems.

As per the above facts, it is getting necessary to explore the multifaceted impact of AI on card payments, highlighting key areas, such as customer behavior, AI platform usage, security features for successful transactions and their efficiency, as well as to understand the impact and status of financial institutions in front of this transformation.

In the Albanian Banking System, as consumers demand more faster, safer, and personalized payment experiences, the role of AI in meeting these expectations has become critical. By analyzing current trends and applications, it is useful to provide insights into how AI is not only optimizing the card payments process but also redefining consumer behavior, in a rapidly evolving digital economy. These changes have considerable impact on all involved structures raising questions whether they are ready for this transformation, and for which are the main challenges that the banks, processors and other financial authorities should be prepared. Through this exploration, we will also consider the challenges and ethical considerations that arise from the implementation of AI in the Albanian Banking Industry products and processes, ensuring a comprehensive understanding of its

implications in the card payment landscape. As we move forward in Albanian cases it is essential to recognize both the opportunities and responsibilities that come with the integration of AI in cards payment systems, paving the way for a more secure and customer-centric future.

## II. Literature Review

### 2.1 Applications of AI (Gen AI) in Banking Industry

The concept of AI was first introduced during the 1950s, focused on developing machines that can simulate human intelligence, with its main use being to automate routine and administrative tasks. It would be prevalent in the early Banking System, around the 1960s, for banks to adapt computer systems to manage accounts, transactions, and customer data, laying the groundwork for future AI applications (Haenlein, M., & Kaplan 2019). Later, during the 1980 – 1990s, banks started using more sophisticated AI technologies like “expert systems”, their purpose being to emulate the decision-making abilities of a human expert. The rise of automated systems allowed banks to process large volumes of transactions efficiently, while at the same time, AI applications started emerging in risk assessment and credit scoring, using rule-based systems to help banks make lending decisions (Waterman, D 1986). At 1990s the volume of financial transactions increased, and AI was applied to improve fraud detection, using rule-based logic to flag suspicious activities (Ng, A. Y., & Jordan 2002).

The 2000s saw a shift toward more advanced Machine Learning techniques introduced. The increased availability of big data, along with advances in statistical modeling, allowed banks to use AI for predictive analytics, risk modeling, and portfolio management. Basic AI algorithm had first been applied to enhance credit scoring models beyond traditional methods, and later to detect fraudulent transactions by identifying patterns and anomalies in transaction data (Altman 2000). The introduction of digital banking during 2010s marked a significant turning point in the way digital banking has been presented in the bank industry, with fraud prevention becoming a primary area for AI to demonstrate its strength. Banks were able to leverage vast amounts of customer data, leading to advanced predictive analytics and personalized banking services. AI-powered chatbots began to emerge, providing customers with 24/7 support, thus improving customer engagement. At this period, as AI continued to mature, natural language processing (NLP) was applied to analyze unstructured data, such as legal documents, loan agreements, and compliance reports, streamlining operations and reducing human error (Jurafsky, D., & Martin 2020).

During the 2010 – 2020s however, personalized banking services were the focus of AI (Avasarala 2020). The use of Robotic Process Automation (RPA) combined with AI was applied for automating repetitive banking tasks, improving operational efficiency, and reducing human errors in processes such as loan processing and KYC (Know Your Customers) checks. AI's role in Banking shifted toward predicting customer's needs, suggesting products and services, and delivering tailored customer experiences, such as customized financial products and services based on individual customer behavior and preferences. Banks began using AI for personalized marketing campaigns as well, with AI analyzing customer behavior in order to create targeted marketing campaigns (Dastin 2019).

Nowadays, generative AI is becoming increasingly influential in customer interactions, allowing for more dynamic and sophisticated virtual assistants that can simulate human-like conversations, respond to customer queries, and perform complex banking operations.

## *2.2 Evolution of Cards Payments Industry in Albania during Covid -19*

It is safe to say that the Pandemic had quite an impact on the banking sector worldwide, as well as the whole of economy, Albania being no exception. The evolution of digital banking in Albania, during the pandemic was marked by an accelerated shift toward online and mobile banking, a rise in *digital-only* solutions, and an increased focus on financial inclusion, making banks face the challenge of responding to the increased demand to perform the financial services online, while also managing disruptions in physical operations. During this period, the digital banking and card payment industry had the greatest boost compared to previous years.

### *Evolution of Digital Banking Platforms*

The pandemic forced many consumers and businesses in Albania to shift to digital banking platforms as physical bank branches closed or reduced their operations due to lockdown measures and social distancing requirements. Even prior to the pandemic, Albania had been gradually following the steps of other banks in Europe, moving toward digital banking, but the evolution remained evident only during this period, the pandemic smoothing the transition. According to Bank of Albania's data, the number of mobile and internet banking services increased by over 40%, during the first months of the pandemic. Particularly younger generations became more comfortable using digital platforms, the older ones being right behind them. In addition, the use of contactless payments and mobile wallets surged, as people avoided cash transactions. The adoption of mobile payment solutions like PayPal, Google Pay, or other platforms developed by local banks became more widespread, especially in urban areas (Bank of Albania 2020a).

### *FinTech solutions companies and digital -only banks (Neo banks)*

Through the years, although Albania has traditionally been dominated by a few large banks, the pandemic encouraged the growth of FinTech solutions companies and *digital-only* banks (Neo banks). The development of these institutions was a milestone in the national Financial Market, offering banking services, such as digital wallets, peer-to-peer transfers and the possibility to apply for a loan in online platforms, exclusively through digital channels, and in the meantime, enabling the demand for contactless, remote banking solutions.

### *Launch of Cashless Transactions*

Another impact of the pandemic in the Albanian Banking Industry, is that it accelerated the shift toward Cashless Transactions. The increased reliance on online banking, mobile wallet, and the contactless payment systems led to significant reductions in cash transactions, which had previously been the dominant payment method in Albania. There was a notable rise in the use of payment cards including both Debit & Credit Cards, as customers and businesses sought safer, and more convenient ways to make transactions. Cash withdrawals from ATM dropped by 30% in the early months of the pandemic, while card payments increased by 25% (AFSA 2020).

### *Innovation of Digital Banking Infrastructure*

Taking in consideration that Covid-19 enhanced Digital Banking Infrastructure and innovation, and given that several actions during this period have exposed gaps in digital banking infrastructure, Albania has taken measures to improve its digital banking ecosystem. Both local banks and the Bank of Albania began to support this recent version of payments, and this new trend of customers behavior, investing more in digital banking technologies, including artificial intelligence (AI), blockchain, and cloud computing, to ensure that financial services could continue operating smoothly. One of the largest and innovative banks in Albania, Raiffeisen Bank with the support of Bank of Albania rolled out new innovative services, like automated customers service through chatbots, digital onboarding, and for the first time has been launch online application process for credit cards and other lending products like: Overdraft and Consumer Loans. These services, which were particularly useful during the pandemic, were the first choice of the customers, mostly the younger ones, and in the meantime helped to maintain continuity in financial services increasing operational efficiency (Raiffeisen Bank Albania 2021). After Raiffeisen Bank, this technology development trend has been followed by other banks, like: BKT, Union Bank, Tirana Bank, which have launched similar banking products and services, enriching the customer experience with digital and innovative alternatives.

### *Regulatory Support of Digital Services promotion and Cybersecurity Risks in Albania*

In collaboration with the financial services institutions, the Central Bank of Albania made significant the Regulatory Support to promote digital financial services. In 2020 a National Payment Strategy was launched, which aimed at the enhancement of payment digitalization and improvement of the electronic transactions' security (Bank of Albania 2020b). With the rise in digital banking and online payments, Albania also faced an increase in Cybersecurity risks and fraudulent activities. This extremely fast trend of online transactions, coupled with an influx of new digital banking users, made the sector more vulnerable to phishing, malware, and other cybercrimes. The Albanian Ministry of the Interior reported a rise in financial fraud and online frauds particularly, as many consumers and businesses lacked experience with digital platforms. This fact puts pressure on banks to enhance cybersecurity measures, such as implementing multi-factor authentication (MFA), stronger encryption and fraud detection algorithms (Albanian Ministry of Interior 2020). In response to this statement, banks began investing heavily in cybersecurity technologies to protect both customers and their systems from these threats. The Central Bank of Albania worked closely with the local banks to implement data protection standards and anti-fraud systems.

### *Financial Inclusion in Albania*

During the Pandemic with the closure of physical bank branches, the underbanked population turned to digital banking solutions to access financial services. Digital banking played a key role in improving financial inclusion particularly in this customer segment. Digital banking played a key role in improving financial inclusion in Albania during pandemic. On the other hand, banks focused on increasing transparency and security in their digital offerings. Building customer trust through digital channels, has been a key factor in Albania's transition toward a more digitally enable financial system. Clear instructions, guidelines on official websites, tutorials and improving customer support through direct mail and call centers, were banks' key actions.

### *2.3. Application of AI in Bankable Products and Services in Albania*

The industry of card payment systems in Albania has evolved significantly over the years, particularly with the rise of digital banking and financial technology. AI adoption in this sector has seen a progressive shift from traditional banking methods to the integration of advanced technologies. Banks in Albania have increasingly turned to Artificial Intelligence (AI) to improve their products and services, streamline operations, and enhance customer experiences. In early developments, banks have shown the first steps of card presence, followed by the expanding of the

card payment system, modernization, and regulations. The integration of AI into Albanian banking system follows a broader pattern of technological modernization that began in the early 2000s. After the fall of communism in 1991, Albania began to transition from a centrally planned economy to a market-based economy. The banking sector began to develop, laying the groundwork for the payment system. In 1998 Alpha Bank disbursed its first loan to a business entity. One year later the bank's dealing room became operational and the first loans for buying houses and cars were disbursed. In 2002 Tirana Bank issued the first credit Visa Card, which was offered to individual customers with defined credit limits. The first ATM was installed from Alpha Bank in 2003, in the meantime the first debit card in the local currency was put in the market. The same year, Alpha Bank signed an agreement with the Tirana Stock Exchange on the clearing of transactions conducted on the Securities Market. Another bank in the same year, the American Bank of Albania (ABA), upon signature of the agreement with Visa Card, started to establish ATMs, and for the first time in Albania issuing Visa Cards and Mastercard brands in both currencies Lek & Euro for individuals & business customers. In 2004, Procredit Bank launched for the first time, ProPay (transfers within the network of the Procredit Banks were simplified in terms of time and costs, leading to improved international payments. In 2006 Credins Bank, launched "Credins Online" service, which enabled customers to conduct transactions on internet and via their mobile phone with their bank account. After Credins Bank, several banks in Albania began to implement an improve online banking service with safety features. In 2008, Alpha Online Banking, and Raiffeisen Direct/Internet Banking have been launched, a service which enabled internet-based access to banking services through token. In 2008, Union Bank Albania presented Maestro & Mastercard in the Albanian financial market. In 2009, Procredit bank launched for the first time in Albania the "Energy Efficiency Loan", a loan for individuals who will make home's investment to safe energy. In 2010 almost all banks offered Debit & Credit Cards, including Visa and Mastercard. In 2012 Credins Bank introduced the pre-paid Visa Card and in the same year, Union bank presented Chip Platform for both Maestro & Mastercard, and launched UB Online platform, the internet banking service which enable online transactions through domestic & international transactions through PC & Mobile (Albanian Association of Banks 2012). The first step of implementing Gen AI in digital banking was the initial journey of transforming banking products and services. Bank customers, through these features, have the possibility to access their accounts, and make banking transactions 24/7, through their mobile phone. It was more than ever easy to be informed and get information on your own accounts, including current accounts, savings, deposit, and cards balance. Additionally, customers have access to make domestic and international transfers within accounts. The evolution of banking products had a significant impact on the activity of business customers. Business

cards and online banking access have accelerated business payments, and in the meantime, has improved payments. Through predefined access rights, business customers can apply the *four eyes principle* during payments by segregating duties between originator and authorizer. As (Drougkas. P. 2017) stressed out in his speech on the 3<sup>rd</sup> National Committee of Payment System:

“Albanian banking has come a long way in electronics banking in the past years: Starting from no-tech (money exchangers on the street, salaries paid in cash and almost no ATM availability) to low-tech (salaries through banks, high use of ATMs and Debit Cards), to the start of the high-tech era (digital/online banking) with almost all banks currently undertaking something in the digital transformation”.

Payment systems' efficiency is important for the development of the economy. The impact of development in banking technology and processes' computerization lead the financial system and the banking sector to a new area of fundamental changes that ensure security in the banking market, efficiency, and cost reduction. The digital transformation is a strategic direction for all banks (Bank of Albania 2017).

Currently, card payments are widely accepted in Albania, with a growing number of merchants, both online and in physical stores, supporting various forms of card transactions. The country is continuing to develop its digital payment infrastructure, aiming for greater financial inclusion and efficiency in the payment system. The trajectory of cards payments in Albania reflects broader global trends towards digital and cashless economies, with increasing participation from both customers and businesses. Following above tracks, nowadays the AI applications in banking products and services are more than ever evident in each bankable product and customer transaction.

### *Customer Service and Personalization*

Nowadays, Chatbots and Virtual Assistants are applicable by almost all banks in Albania, providing 24/7 customer service, automate routine inquires, and enhance user experience. These systems are natural language processing (NLP), which enables interaction with customers, in a conversational manner. Digital developments helped banks to design and develop more personalized products and services, by analyzing customer data and behavior patterns. Banks today have more sophisticated systems, which allow them to parameterize different product features according to customers' segment and applied these terms and conditions in the real time when the user picks up this product at the list value.

### *Direct Mails and SMS services*

Banks now can notify clients automatically through **Direct Mails and SMS** for sales and customer engagement reasons, including customer engagement,

information in real time for transactions details performed with a Debit and Credit Card, or successful money transfers for amounts higher than a defined amount. Facing the increase of consumer demand for quality, banks offer services to ensure positive customer experience. Banks aim to enrich customer experience and in the meantime to appreciate loyal customers, through fast and trusting products and services.

### *Online application for Credit products*

By visiting the website of the bank, and fulfilling the required personal information, the request procedure has been initiated. In addition almost all the banks in Albania have implemented online lending products platforms, which offers real time information about the application status, and Time of approval (TTY) and time of disbursement (TTC) reduction. The loan approval process in several banks in Albania is completely automated, reducing manual paperwork, and making faster decisions. Through AI applications the customer data can be analyzed more comprehensively and make the credit decisions quicker and more accurate. Several banks are offering online current account applications nowadays.

As internet usage grows in Albania, so did the online payments for shopping and other profiles. Following this trend all the shops today are offering “Buying Online Platforms”.

### *E-commerce and Online Payments Platforms*

Banks are developing the E-commerce and Online Payments Platforms, to offer the merchants the possibility of online payments through Debit Cards, Credit Cards, and Wallet. Later on, since the evolution in the pandemic era, contactless payments technologies began to emerge, making transactions quicker and more convenient for consumers. During latest years, the evolution of contactless payments reflects a significant shift in consumer behavior and technological development. Advantages of Tap & Pay method, such as: speed, convenience, security and perform the payment with no contact, push the Albanian customers to embrace this payment mode. This payment method has developed in the meantime security features for cards payments and tokenization, by changing forever customer engagement. The technology used in this kind of transaction is NFC, which enables short -range communication between devices, allowing for quick data transfers and RFID, used in various contactless cards where an embedded chip communicates with a reader. Wearables and smartwatches are also a form of contactless payments, which are offered in Albania from Raiffeisen Bank. In order not to have limitation in this new Tap & Go payment mode, and concentrate this feature only in POS channel, the processors and Tech companies have gone even further. They have developed Smart ATM that offers contactless option that works the same as in POS, but the main purpose is to withdraw money fast and without need of the chip and PIN.

Digital wallets are the new trend for payments in this new area, used chiefly by youngsters, but not only. This service is their first payment choice. Since the card is registered in a wallet, the customer can perform purchases in two main methods: POS & Online. By opening wallet app and holding the phone near payment terminal that supports NFC, the payment is performed successfully. By registering the required fields in the app, the physical card is tokenized in the app, and the customer can purchase by smartphone, in the same way as the physical card is used. The advantage of using Google Pay for Card Payments is that there is no need to carry a physical card with you; your phone can serve as your wallet, and encryptions and tokenization are used to protect your card details. In the meantime, payments through wallet quick and easy, reducing the time spent at checkout, and the customer has multiplied payment cards in one place. Actually, in Albania this service is offered from Raiffeisen Bank, which has developed its own platform, and from ProCredit Bank and Union Bank, which offer Google Pay service.

### *Evolution Daily Banking Operations*

Nowadays, these services are done automatically in the system through core Banking system, and no manual documentation is required. Clients that perform these operations at the clerk, are not obligated to stay in a row.

Standing Order is a new feature of periodic payment that is offered mostly for Credit Card used balance payments, or for utility payments. In regular basis on the chosen date from the customer, automatically from the account, initiate a payment order to the other account.

E-commerce is one of the most used channels nowadays for banks and merchants. Big banks that have a considerable market share in the Albanian banking sector have developed an e-commerce platform, which provide businesses with the opportunity to sell products or services online, without the need for physical card. Through this platform banks generate incomes through commissions and cards activity, on the other hand, businesses grow even more their sales and gain new customers that shop and make purchases at any time 24/7, comparing prices, read reviews, and make more informed purchasing decisions from the comfort of their home.

### *Customer Experience and personalized services*

Recently, the banking sector has made substantial investments to improve customer experience through personalization, customers segmentation and targeted promotional campaigns. Through AI platforms, banks have nowadays a 360-grade customer view, regarding personal information, income information, bankable products and the customer payments spending behavior for bankable products, and their exposure in these products. Banks distinguish each customer

profile and design dedicated products and personalized promotional campaigns with preferential terms and conditions. Through Gen AI analyses, regarding card transactions data, banks are oriented to rewards and cash back campaigns, based on customer profile. They create tailored customer experience and enhance loyalty programs based on customers' spending behavior and their profile in bankable products by incentivizing the card usage and improving their product portfolio. Additionally, banks promote Cash Back campaigns for segmented customers, awarding them with monetary funds based on transaction activity and promotional campaign terms and conditions. The development of AI has affected even the Fraud Detection and Prevention through sophisticated algorithms that analyze transaction patterns for anomalies, improving transaction security and fraud possibilities.

Customers relationship management (CRM) platforms are mostly used by Albanian banks today. Through Gen AI this platform helps banks track interactions with their clients, automate tasks like data entry, communicate consistently, analyzes customers segment data, and track performance. The main focus of banks using CRM is: improving marketing sales, customer service, product portfolio and managing customer relationships, in retail and business customers. One of the unique challenges of banking in a digital world is understanding and fulfill expectations, In the Gen AI age, this implies having in-depth knowledge of each customer, taking a tailored approach, anticipating customers' needs, and doing it all faster than competitors.

A new trend in Albanian Market that underline the Gen -AI affect is Credit Cards installment payments. Today almost all banks offer to the customers the option to buy now- pay later, which means that the payment transaction amount can be spited in installments and can be paid according to customer financial ability.

#### *2.4 Customer perception regarding AI developments in Financial Banking Sector*

There are different banking customers' behaviors related to advanced banking products and services. While innovations platforms are seen as beneficial in many areas, customer reaction depends on their understanding of the technology, their familiarity to use online/real time services, their comfotability with automation of the services and their fear or concerns about privacy and security. As (Meka 2019) asserted:

“Certainly, machines will be more and more INTELLIGENT, but people have always been SMART! So, the best reality of the future must be the synergy and co-existence between “smart” and “intelligent”, or the “SMARTELLIGENT” banking service!”

In the Albanian banking industry, through fast and real time products and services, the customer perception is a mix of excitement for benefits it offers, in terms of convenience, personalization, and security, along with concerns about trust, transparency, and loss of human interaction. Banks are trying to address these concerns by educating customers, ensuring data privacy, and offering clear communication, aiming to have a fast integrated AI into their products and services.

### *Perception of convenience in Banking Products and Services*

The majority of bankable products enhance **convenience** by offering 24/7 customer support, quick responses and tailored product suggestions. The Albanian customers appreciate not having to wait on hold for a human agent or visit a branch for basic tasks. On the other hand, customers benefit from **quicker processing time** for applications, transfers, inquiries, and in the meantime, they like **personalized offers**, based on their preferences and transaction history. For the customers that have a positive mindset and trust the technology, the cause that AI can monitor in the real time transaction and flag suspicious activity with greater accuracy than traditional methods, leading to higher levels of security and fewer fraudulent transactions is more than true. On the other hand these customers trust AI -based biometric security features, such as facial recognition, fingerprint scanning, considering these features as the more secure and convenient way to access their accounts and authorize transaction.

### *Managing Funds through Online Platforms*

Albanian banks even more are offering online platforms to have a clear view of own finances in real time and are offering better tools to manage funds and transactions, increasing the positive customer perception to manage their finances fast and in real time. But another point of view from skeptical customers is how their personal data is being used.

### *Data Privacy and Human Interaction*

Based on their frequently questions in Customer Services platforms, Albanian customers are often wary about data privacy, how much of their financial information is collected, stored and processes by AI systems. On the other hand, there are customers that declare the human interaction lack that comes with the standard activity during in-person banking. In Albanian Banking, affected even from the financial history milestones, many customers do not trust only the online information regarding their financial transaction, without a proof that approves their funds status. In additional many customers do not fully understand how AI works or how it benefits them, in terms of banking products and services, and in the meantime some of these customers are cautious about relying on AI for critical tasks such as loan applications or loan approval, credit assessment, transactions through online banking, or online offers through QR codes. The potential errors

or misunderstandings in their financial activities through non-in-person banking, which can affect their finances, is their main concern.

### *Factors that influence Customers Perception related with Bankable Gen AI*

Customers' perception in banking is shaped by a range of factors, which encourage or hinder customers' trust in, willingness to adopt, and satisfaction with AI-powered banking products and services. The bankable products and services affected by AI features are becoming complex and even more digitally oriented.

Taking about **Age**, younger customers are more familiar with digital technology and as a generation grown up in an automation era; they are comfortable trusting AI banking products, which offer according to their perception, convenience and efficiency, appreciating features like personalized financial advice, quick loan approvals, and 24/7 access to services. On the other hand, older generations tend to be more cautious regarding these AI products, due to less familiarity with technology. This generation usually has questions about how AI makes decisions, especially in sensitive lending financial services, like loans, credit cards, or overdrafts. They often have concerns related to data privacy and security and they feel more comfortable speaking with human representatives.

Education and experience play a role in how customers understand and trust digital products and services. Customers who are educated about how AI works or have previous experience are more confident and understand the process faster and how they can benefit from these latest trends. On the other hand, customers with lower levels of education do not understand the digital products process and due to the lack of familiarity they hesitate to trust these services and prefer traditional banking services. **Education and awareness** remain key factors that influence customer behavior to access the AI-platforms and following banks' activity. Trust in technology and data privacy is one of the factors that affect customers' perception. Using digital banking services fast and online services, the fear of data privacy hacking and misuse of personal data can affect trust in AI solutions.

Another factor is familiarity with AI. Customers who have had positive experiences with AI are more likely to embrace this effect in banking operations, compared with others who are less familiar with digital interfaces, or who may have difficulty navigating complex online platforms. **Customer Support and human interaction** can affect customer perception about Gen AI impact in banking solutions. Customers who are wary of fully automated services often prefer a hybrid model, where AI handles routine tasks but for more complex or sensitive banking operations there are available human representatives. Additionally, **bank reputation** and its commitment to responsible AI use can significantly influence customer perception. Customers are more likely to trust AI in banking services launched by a reputable financial institution with a long track record of customer service and ethical behavior. **Level of Incomes** play a significant role in

customer perception. Customers with a high-income level may be more willing to experiment with new technologies, including AI in banking operations, while lower -income customers may be more cautious, particularly if they perceive AI as a tool for rich customers and in addition, they are concerned about specific costs of using advanced banking technology. **Urban Customers and Rural customers** have different perceptions about digital banking operations. Customers in urban areas, who are often more exposed to technology and innovation, are more open to using new technology trends in banking, while rural customers can have less access to advanced AI services and prefer more traditional banking or face-to-face banking. Internet connection and assessment of platforms and smartphones availability in rural areas can make customers' perception lower than urban zones.

### III. Methodology

Debit and credit cards' activity in the Albanian economy has been growing during recent years. These instruments have become the primary choice for transactions in Albania; they are widely used for everyday transactions, as: ATM withdrawals, shopping, and bill payments. According to (Bank of Albania 2024), the number of Debit and Credit Cards issued in Albania has grown steadily during recent years. In 2024 the total cards number increased by +37% or +387.000 more issued cards.

When divided by cards portfolio, in 2024 debit cards show an increase by +39% or 370.000 more cards, compared with 2018, while credit cards have increased by around +16% or +16.000 more than 2018. However, challenges like education and awareness regarding advantages of financial instruments, use of cash in rural areas, and the need for financial literacy about credit cards and debt management remain key factors in shaping the future of payment trends with debit and credit card.

**FIGURE 1.** No. of Issued Cards in Albania



Source: Bank of Albania, Payments Instrument Report.

While digital banking was already growing with normal steps, today the development of Gen AI platforms and their use is an essential service for many consumers. Transactions that were previously done in-person have moved to digital channels, with a focus on mobile banking, online payments, and contactless transactions.

The number of Digital Banking transactions in 2020 has increased 41% or 1.4 million more than 2018. Meanwhile, in 2024 Digital Banking Transactions in Albania have increased 65% or 2.6 million more than 2020, or stated differently +133% or 3.8 million more than 2018. This transformation is expected to be long-lasting, as customers have now become accustomed to the speed, convenience, and flexibility of the digital banking service.

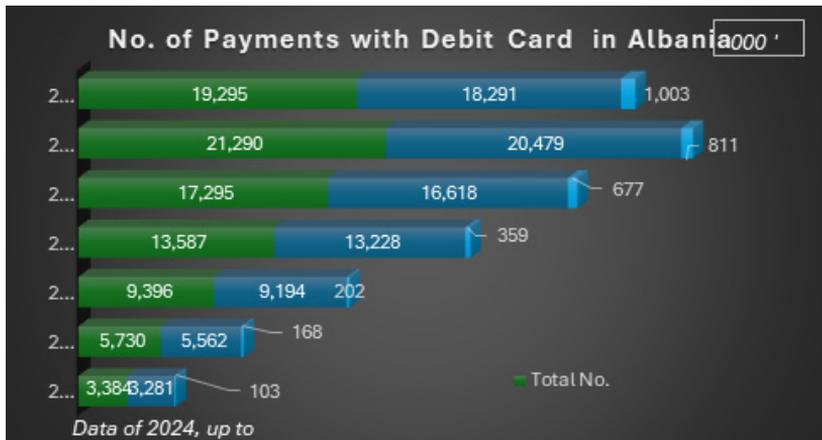
**FIGURE 2.** Digital Banking Transactions in Albania



Source: Bank of Albania, Payments Instrument Report.

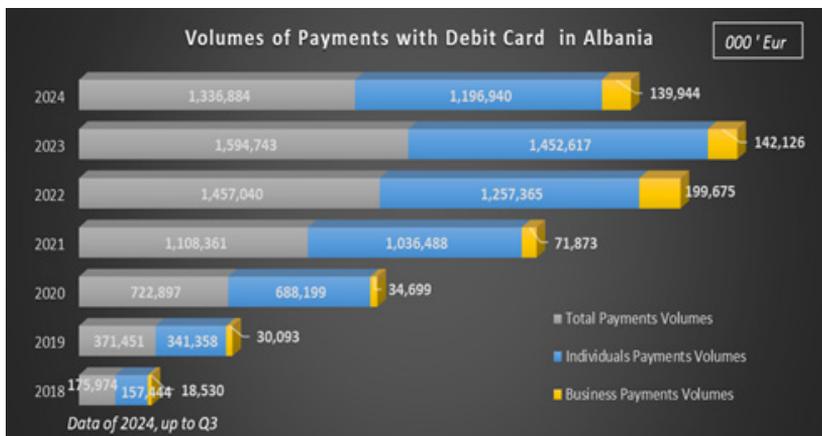
The trend with Debit Card Payments in Albania has evolved significantly in recent years, reflecting a digital customer behavior and a Gen-AI influence. The adoption of digital payments, including debit card usage for individuals and businesses in Albania has grown steadily, particularly in the wake of technological advancements, increased internet access, and the pandemic period. The total number of Debit Card transactions for Individuals has increased in 2020 by 178% or 6 million more than 2018. Meanwhile, in 2024 total number of transactions with Debit Card in Albania have increased 105% or 9.8 million more than 2020 or otherwise +469% or 15.9 million more than 2018. The same increasing trend is seen for transactions made by businesses' debit cards.

**FIGURE 3.** No of Payments with Debit Card in Albania



Source: Bank of Albania, Payments Instrument Report.

**FIGURE 4.** Volumes of payments with Debit Card in Albania

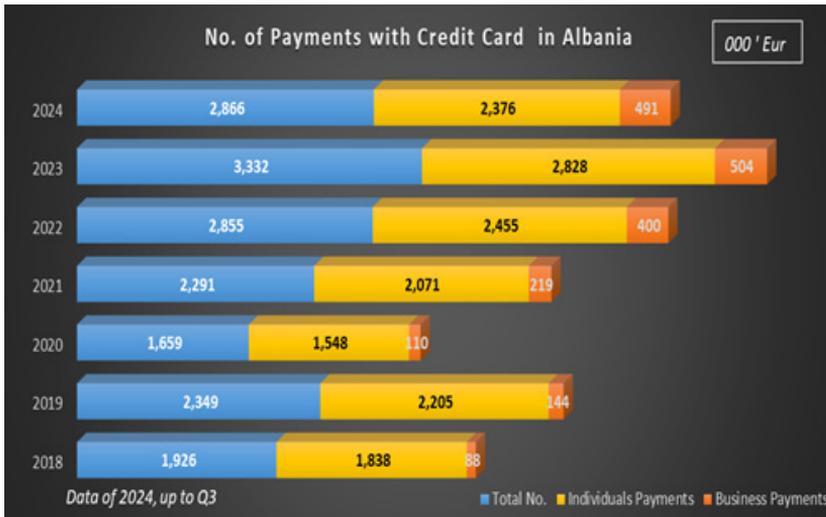


Source: Bank of Albania, Payments Instrument Report.  
Payments Instruments by Years, (BOA Official Exch. Rate 98.13)

In terms of volumes, the transactions volumes in 2020 increased 310% or EUR 546 million in comparison to 2018. Meanwhile, the transaction volumes in 2024 increased by +85% or EUR 613 million, compared with the volumes performed in 2020, said otherwise +660% or EUR 1.1 billion.

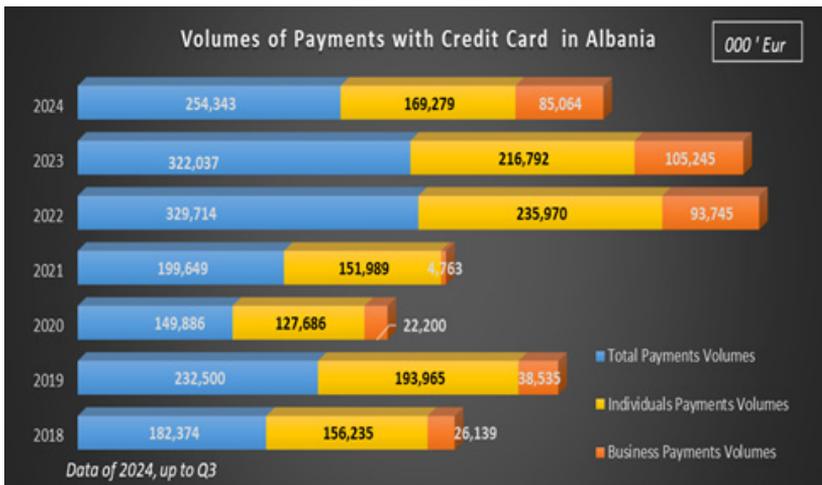
The evolution of usage of Credit Cards for payments within the country and abroad, reflects an increase through the developments in Albanian financial infrastructure, consumer behaviour, and technological adoption.

**FIGURE 5.** No. of Payments with Credit Cards in Albania



Source: Bank of Albania, Payments Instrument Report.

**FIGURE 6.** Volumes of Payments with Credit Card in Albania



Source: Bank of Albania, Payments Instrument Report, Payments Instruments by Years, (BOA Official Exch. Rate 98.13).

In recent years, it has seen a notable increase driven by factors such as: greater financial inclusion, the rise of e-commerce, improvements in payment infrastructure and the influence of international banks and fintech innovations. The same picture appears in the transaction with credit card volumes, affected by the banks assessment politics, e-commerce growth, mobile banking and digital payments, cashless trends, and growth of fintech solutions.

Contactless payments through debit and credit cards gained use during the pandemic due to health concerns and a shift toward safer, more convenient payment methods.

**FIGURE 7.** Contactless Transactions in Albania



Source: Bank of Albania, Payments Instrument Report.

Today this kind of payments are a key trend in Albania, and many banks have developed this feature, allowing customers to perform quick payments without needing to enter a PIN for transactions up to a specific limit, usually low amounts.

**FIGURE 8.** No. of Terminals in Albania



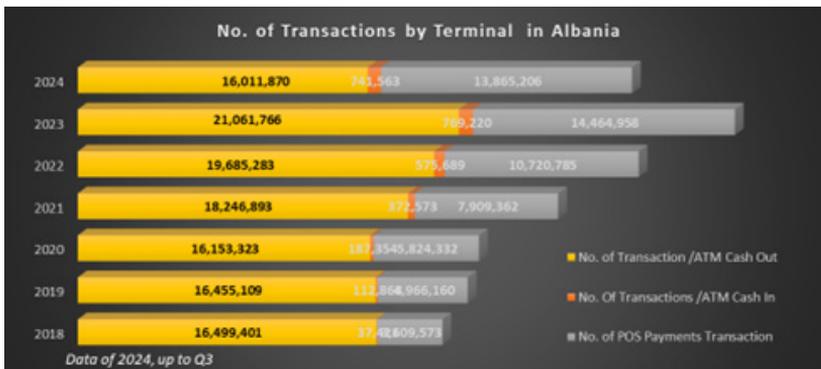
Source: Bank of Albania, Payments Instrument Report.

Contactless transaction numbers have shown an increase of approximately 62% or 185,000 more transactions in 2020 compared to 2018. Meanwhile, in 2024, they increased by +111% or +330,000 more transactions than 2018.

The evolution of Automated Machines (ATM), Point of Sale (POS), and e-commerce in Albania has shown noteworthy progress, though challenges remain, particularly in rural areas where digital adoption lags behind urban centers. The total number of ATMs continued to rise in the 2020s, especially in

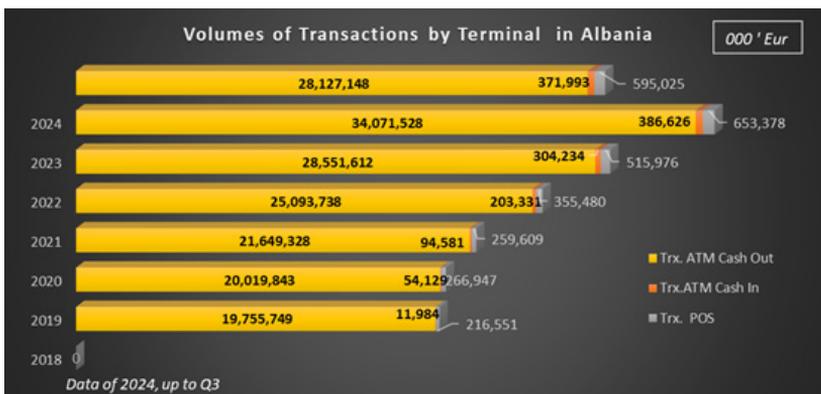
tourist-heavy regions. Mobile banking and Cashless ATM features became more widely available, allowing users to access their funds using mobile phones or QR Codes.

**FIGURE 9.** No of Transactions by terminal in Albania



Source: Bank of Albania, Payments Instrument Report.

**FIGURE 10.** Volumes of Transactions by Terminal in Albania



Source: Bank of Albania, Payments Instrument Report, Transactions according to Terminal in Amount.

By 2020, POS terminals became more common in Albania, particularly as the younger generation as generation became a significant consumer base. Businesses in Albania began adopting more sophisticated POS systems with integrated accounting, inventory management, cash back, cash advance and sales analytics. As mobile phones became ubiquitous, mobile POS systems became increasingly popular for small business owners and merchants, offering affordable and flexible payment solutions. Meanwhile, following the e-commerce development, Cash In service in ATM was a new trend that showed an increase in transactions.

## IV. Findings & Results

1. The integration of AI technology has brought significant enhancements to the payment process, influencing both operational efficiency and customer experience. From personalized marketing strategies to real-time fraud detection, AI has transformed how financial institutions and businesses overall interact with customers and on the other hand how consumers engage with payment systems.
2. Payment statistics show a fast increase in issued cards, transactions number and volumes, and in the meantime an increase of terminals. The pandemic forced many consumers and businesses in Albania to shift to digital banking platforms, due to lockdown measures and social distancing requirements. Also, it accelerated the shift toward Cashless Transactions, where the increased reliance on online banking, mobile wallet, and the contactless payment systems led to significant reductions in cash transactions, which had previously been the dominant payment method in Albania.
3. Most bankable products enhance convenience by offering 24/7 customer support, quick responses, and tailored product suggestions. Albanian customers appreciate these technology benefits, but they are often wary about data privacy, how much of their financial information is collected, stored and processed by AI systems.
4. There is still a need for the development of I2I financial programs, mostly in rural areas, where people are less informed, and the infrastructure of payments need more developments.

## V. Discussions

1. Future AI advancements may lead to even more accurate models for predicting market trends and customer needs. Integration with Emerging Technologies: AI is likely to integrate with blockchain, quantum computing, and Internet of Things (IoT) to further transform banking operations.
2. The increase of Credit Cards usage remains a key factor in cards payment evolution in Albania. The increase in Credit Card usage is a result of multiple factors, including technological advancements, changes in consumer behavior, economic growth, and the expansion of digital payments. While this trend brings significant benefits, such as: convenience, security, and financial inclusion, it also raises challenges related to debt management, personal data protection, and financial education.

3. The rise of mobile payments presents both opportunities and challenges for the banking system and government in Albania. A regulatory framework can improve consumer protection and address new fintech innovation. Although the banking sector is moving towards digitalization, its older legacy and gaps in financial inclusion remain a hurdle for broader adoption, particularly in rural areas.
4. The development of Direct Money Transfers in Card through mobile numbers are becoming increasingly popular in the world as a fast way for customers to send money without fulfilling the required rows with sensitive financial data. Even in Albania mobile phones are more widely used than traditional banking infrastructure, there is a lack of the accuracy of mobile phone numbers and the customer consciousness to regularly update the personal data in the bank.
5. Security of Transactions and Fraud cases remain a key discussion topic. Even if some actions are implemented to avoid these challenges, the banks must invest in robust security protocols (two factors authentication, encryption, AI-driven fraud detection) to safeguard the customers.
6. Increase of using Buy Now-Pay-Later technology. Today this form of payment is developed in credit cards by paying the installment on a monthly basis. Another convenient form of this payment can be that the customer can choose by himself the number and amount of the installment, and not only in regular monthly amounts.
7. Virtual cards are a new payments method for customers that are skeptical and do not want to use their card in e-commerce. This card allows them to use it only once and all details of the card are not valid after the first use.

## **VI. Conclusions & Recommendations**

1. With the increase in products and services where AI is the main indicator comes the need to ensure that customer data is secure and compliant with local and protection laws. In Albania, many initiatives have been done by the Bank of Albania and banks, but still there is no data Privacy and Security procedure that should protect both parties. Many banks in Albania still rely on existing legacy systems which may not easily integrate with AI solutions, and significant upgrades to IT infrastructure.
2. Developing customer digital signature for Customer onboarding. Today banks are facing issues for the Online Customer Onboarding and Opening a Current Account. There is an immediate need to develop further the electronic signature procedure and legal gaps, to implement these operations.
3. The Bank of Albania began implementing regulations to standardize card payment systems and enhance security, particularly following global standards

for electronic payments (Implementation of BOA's transparency regulation about Contactless daily limits) but there are still many gaps that should be formalized in order to make card payments safer and avoid risk.

4. E-commerce sites store sensitive customer information, such as payment details and personal data. Alternatively, online transactions can also be vulnerable to fraud, such as: identity theft, payment fraud, and account hacking. Provider companies, banks with support of Bank of Albania have developed 3DSecure, and CVV2 features, but there is the need of advance security features to avoid cyberattacks and data theft. Banks and Bank of Albania should invest in customer education programs related with Gen AI platforms providing clear explanations and building trust, improving the acceptance of AI -driven services.
5. Increasing adoption among younger consumers through dedicated products and services for this new customer segment. The generational divide is the main reason to design innovative products, as young people appreciate the speed, convenience, and no contact transactions benefits of AI payment platforms, while older generations often exhibit skepticism or lack of familiarity with the technology.
6. Designing transparency and control booklets or information on the website about how AI platforms are used, what data is being collected and how decisions are made. Customers are more likely to trust AI if banks are transparent about the above topics. Giving customers control over their data and allowing them to opt in or opt out of certain AI-driven services can also improve perception.
7. Crafting clear regulatory frameworks around the use of AI in banking, which would reassure customers that AI is being used responsibly.
8. AI platforms should be combined with human support. Customers are more comfortable with AI when they know that they can easily switch to a human representative if they cannot reach out to finalize the transaction.
9. Launching campaigns to inform and educate the customers about the benefits of AI products and services to increase the usage of these products, and in the meantime for guidelines how to use them in a safe and secure manner.
10. Implementing product alerts to customers regarding card expiration date, loan installment, and deposit maturity date. This will help with customer satisfaction and in the meantime with product management portfolio.
11. Implementing fingerprint scanning only, for card payments and online transaction, without the need of fulfilling all necessary data in online banking page, or swiping the card in the POS.

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# Exploring Public Sentiment Towards Agile and Digital Transformation: A Twitter Sentiment Analysis

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## **Abstract**

*In a fast-changing business environment, Agile methodologies and Digital Transformation are considered some of the key drivers for innovation, adaptability, and competitive advantage. The research into public opinion about these concepts will certainly*

*help an organization successfully take their respective transformations in the right direction. The objective of this study is to analyze public sentiment, expressed over Twitter on Agile and Digital Transformation issues, using a sentiment analysis tool.*

*The VADER tool was utilized to assess sentiment polarity for 1,014 tweets using the hashtags Agile and DigitalTransformation. This tool is utilized in this study to further understand perceptions of the concepts presented through online discourse. The results of such sentiment analysis would give a comprehensive summary with public opinion, thereby highlighting emotional responses, attitudes, and perceptions surrounding Agile practices and Digital Transformation efforts in different areas.*

*This study offers implications for practitioners, researchers, and policy makers involved in shaping strategies for adopting Agile and Digital Transformation initiatives. The gained insights can, therefore, be used by organizations to position themselves better with the sentiments of their target audiences, hence improving the ability to reach out to them more effectively and react promptly whenever there is a shift in public opinion.*

*Such rich insight is provided by this research on how social media sentiment reflects greater trends in public opinion and at the same time elucidates the importance of sentiment analysis to guide decision-making processes toward successful digital transformation and Agile adoption. The results offer critical guidance to organizations navigating these complex changes, allowing them to be more responsive in the dynamic and increasingly digital global marketplace.*

**Keywords:** *Agile Methodologies, Digital Transformation, Sentiment Analysis, Public Opinion, Twitter Analysis, Public Sentiment.*

## **I. Introduction**

Businesses must embrace creative ways to handle the intricacies of today's dynamic environment, given the rapid speed of technological improvements and the growing necessity for firms to maintain their competitiveness. Agile methods and digital transformation are two important strategies that have been more well-known in recent years. Despite their differences, these two ideas frequently come together to promote organizational responsiveness, flexibility, and general performance enhancement. Agile methods, which were first created in the software development industry, place a strong emphasis on collaborative, iterative techniques that foster adaptability, customer focus, and ongoing progress (Westerman, Bonnet, & McAfee, 2014). Agile has shown to be a very successful framework not only in software development but also in a variety of other industries and roles by allowing teams to adjust to changing requirements and continuously incorporate feedback.

Conversely, digital transformation is a far more significant change. It entails using digital technology to improve consumer experiences, streamline corporate procedures, and spur innovation throughout an entire company (Ross, Beath, & Mocker, 2019). Digital transformation is the fundamental rethinking of how an organization functions and provides value in the digital age, not just the adoption of new technologies. A customer-centric innovation mentality, organizational reorganization, and cultural adjustments are frequently necessary for this paradigm shift. Knowing how the public feels about these two revolutionary tactics is essential as companies work to incorporate them. Organizational success may be impacted by how the public views companies' planning and execution of Agile techniques and Digital Transformation projects.

Sentiment analysis over the internet has now become an indispensable tool in this modern world for organizations, where social media sites play an unprecedented role in shaping and reflecting public opinion. Moreover, among these, sites such as Twitter represent a particularly valuable repository of real-time, unfiltered opinions, experiences, and sentiments. The nature of Twitter is fast-paced and concise; hence, it provides a very unique insight into how different individuals view various topics, business strategies, and technologies. Public sentiment herein refers to the overall attitude or opinion expressed through people towards Agile methodologies and Digital Transformation in social media. Looking at the sentiments will help an organization to understand the acceptance level, concerns, and potential barriers that come with these concepts.

Sentiment analysis on social media, especially on Twitter, could offer the possibility of capturing a wide range of opinions, from avid enthusiasts to hard-nosed skeptics. Twitter is conversational, and that allows users to speak their minds out; hence, it's a good source of data on understanding public perception. The paper, therefore, looks at the use of Twitter Sentiment Analysis in an attempt to find how the public perceives both Agile and Digital Transformation. Insights from such analyses are important to any organization seeking to execute its strategies in line with what its stakeholders want and are worried about.

In order to investigate this further, this study uses sentiment analysis on Twitter data to determine how the public feels about Agile approaches and digital transformation. Sentiment analysis is a text mining technique that labels opinions stated in tweets as positive, negative, or neutral in order to detect and measure the emotional tone within a body of text. In this study, 1,014 tweets about Agile and Digital Transformation are analyzed for sentiment using the Valence Aware Dictionary and Sentiment Reasoner (VADER) tool. Because the VADER tool is made to manage the brief, casual, and frequently emotional nature of tweets, it is ideally suited for evaluating social media data (Hutto & Gilbert, 2014).

There is a full realization that Agile methodologies and Digital Transformation meet at strategic crossroads. The implementation of these strategies, no doubt,

remains fundamentally complicating and multi-layered in driving innovative flows for continuous growth in the digital-first arena. Agile brings in much-needed flexibility and responsiveness to harness the fast-evolving landscape of digital tools and technologies; Digital Transformation offers an overarching framework on how organizations can leverage those very same technologies to stay competitive.

In view of such seriousness of strategies, identifying people's sentiment becomes cardinal in that fact may influence the organizational efforts and perception interpretations. The wider diffusion of these programs may well be achieved by stronger public support, whereas negative or neutral sentiment may suggest misunderstandings or barriers to be encountered. In furtherance to examine this phenomenon, this present study seeks to find answers to two key questions:

Research Question 1. *What is the overall sentiment expressed by the Twitter community about Agile methodologies and Digital Transformation?*

Research Question 2. *How does sentiment distribution then use strategic decisions and the communication strategy of organizations?*

By this analysis, we aim to portray the dynamics of sentiment in these conversations on Twitter. The sections that follow in this paper will go into a detailed description of the methodology applied and the results obtained from sentiment analysis, including discussion to contextualize the findings. It was expected to contribute to the growing body of knowledge at the nexus between sentiment analysis, social media, and organizational transformation while providing an insight to guide practitioners, researchers, and policy thinkers for better strategies toward Agile methodologies adoption and Digital Transformation.

## **II. Literature Review**

### *Agile Methodologies*

Software development and project management have seen a revolution thanks to agile approaches, which are based on collaborative and iterative concepts. Abrahamsson, Salo, Ronkainen, and Warsta (2017) stress the value of Agile techniques in promoting flexible development procedures that conform to the ever-evolving dynamics of the market. Additionally, the study of Serrador and Pinto (2015) emphasizes how Agile techniques can improve project outcomes, foster flexibility, and strengthen team cooperation.

The advantages and difficulties of adopting Agile have been the subject of a substantial amount of research. Serrador and Pinto (2015) list the elements that affect Agile project success, emphasizing the importance of leadership and

corporate culture. Ahimbisibwe, Cavana, and Daellenbach (2015) investigate the effects of Agile techniques on project success variables based on empirical data, highlighting the benefits of Agile for team communication and customer satisfaction. According to Mergel, Ganapati, and Whitford (2021), Agile cultures promote flexibility in organizational procedures by emphasizing individual and team liberty. This change has worked well in a number of contexts, such as the public sector, where effective adoption necessitates support from the leadership, empirical study, and conformity to member expectations and skills. A novel organizational agility framework with 10 pillars—innovation culture, empowerment, adaptability, vision, change management, communication, market responsiveness, operations, structural flexibility, and learning—is presented by Harraf, Wanasika, Tate, and Talbott (2015). With implementation specific to each organization's needs, each of these pillars provides a road map for enhancing organizational success and responsiveness.

### *Digital Transformation*

Industries and organizational strategies have changed in the age of digital transformation, necessitating the integration of digital technology to improve consumer experiences and operational efficiency. Westerman, Bonnet, and McAfee (2014) stress the significance of strategic alignment and creative thinking in advancing Digital Transformation initiatives, emphasizing the role of leadership. Additionally, Ross, Beath, and Mocker (2019) stress that in order for businesses to thrive in this quickly changing world, they must adopt a digital-first mindset. Additionally, the effect of digital transformation on organizational performance has been the subject of empirical research. According to Berman, Bell et al. (2011), there is a favorable association between financial performance and digital maturity. Similar to this, AlNuaimi, Singh, Ren, Budhwar, and Vorobyev (2022) look into what makes Digital Transformation projects in the public sector successful, emphasizing the value of leadership backing, stakeholder engagement, and technological preparedness

### *Sentiment Analysis*

In the context of digital platforms, sentiment analysis has been investigated in a number of studies as a potent tool for interpreting public sentiment and attitudes. By pointing out the difficulties in detecting sentiment in brief and informal posts and proving its use in assessing public opinion, Pak and Paroubek (2010) laid the groundwork for sentiment analysis in microblogs. From April to September 2021, Nezhad and Deihimi (2022) analyzed opinions of COVID-19 vaccines in more than 800,000 Persian tweets, with an emphasis on both domestic and international

ones. Prior to worries about adverse effects, opinions toward foreign vaccines were generally favorable. Overall, there was no discernible variation in opinions, but the unfavorable feelings did occasionally increase. Taking use of Twitter's multidisciplinary character, Antonakaki, Fragopoulou, and Ioannidis (2021) use it to research a variety of subjects, including social protests, health concerns, natural disasters, and societal attitudes. The absence of consistent datasets as a result of stringent platform rules is one of the difficulties, though. In addition, Antonakaki, Fragopoulou, and Ioannidis (2021) highlight Twitter's features, social graph, sentiment analysis, spam threats, bots that propagate false information, and hate speech, emphasizing the value of well-informed fact-checking. Techniques for identifying sentiment and emotion are reviewed by Nandwani and Verma (2021). According to the study, lexicon-based approaches are effective for analyzing sentiment and mood. Dictionary-based methods are easy to use, but corpus-based methods are accurate but have limited applicability because they depend on certain domain norms for their efficacy. The combined results of these investigations highlight how flexible sentiment analysis methods are in revealing subtleties in sentiment across a range of data kinds and fields. Sentiment analysis is a powerful technique for identifying emotional undertones in digital communication, from political speech to customer reviews and multimedia material.

### **III. Methodology**

The methodology we have employed to complete this research includes data collection, preprocessing, sentiment analysis, and data visualization in order to mine prevailing attitudes and emotions within the Twitter community. Further, we will explain each of them in detail.

#### *3.1 Data Collection*

The actual process of collecting the data itself requires gathering tweets about agile and digital transformation using Agile and DigitalTransformation hashtags. The Twitter API, accessed through the Tweepy library, has collected 1,014 tweets that express various opinions and sentiments. The date collection period ranges from 2023-02-06 to 2023-08-18, so it is appropriate for having enough tweets to analyze.

#### *3.2 Data Preprocessing*

Before the sentiment analysis, the raw Twitter dataset has been preprocessed to further enhance the efficiency of the machine learning model in sentiment classification by removing noise from the text data. Following steps have been

undertaken to do the pre-processing on the data using the Natural Language Toolkit NLTK library: Text Preprocessing: Special characters, URL, hashtags, and mentions removal

- a. Sentence Tokenization: sentences will be separated into individual words or tokens
- b. Lower casing: all tokens shall be converted into lowercase for consistency in the analysis stage
- c. Stopword Removal: filtering out the common words that do not bear meaningful content
- d. Lemmatization: this step reduces words to base form generally called lemma for consistency in the analysis stage for final processing.

Finally, the pre-processed dataset will be ready for sentiment analysis.

### *3.3 Sentiment Analysis*

Sentiment analysis has been done based on the usage of Valence Aware Dictionary and Sentiment Reasoner (VADER) sentiment analysis tool is VADER, which, unless otherwise mentioned, is from NLTK. VADER provides a sentiment polarity score for each token so that each token can be categorized into one of three categories: positive, negative, or neutral. The overall sentiment for each tweet is created summing up the polarity scores of the tokens. Tweets are labelled as positive, negative, or neutral according to threshold values set by the sentiment scores.

### *3.4 Data Interpretation*

The output of the sentiment analysis provides the distribution of sentiment in the collected tweets. The share of positive, negative, and neutral feelings provide the share of dominant sentiment dynamics in the Twitter discourse with agile methodologies and digital transformation.

In addition, sentiment patterns over time can be analyzed in order to detect any changes or sentiments which could be born in expressions.

### *3.5 Data Visualization*

The methodology of data visualisation is important in showing clearly the results of the performed sentiment analysis. The use of Matplotlib libraries allows developing different charts showing distribution of positive, negative, and neutral attitudes Tweets are used; for example, visualizations of bar charts.

### 3.6 Limitations

Some of the limitations to this methodology include the potential bias in the data collected, since it is based on Twitter discourse subjectivity of the sentiment analysis tools and an inability to capture nuanced sentiments effectively.

### 3.7 Implications

The methodology implies consequences for organizational decisions, communication strategies, and policy formulation by showing the insight of public sentiment towards Agile methodologies and Digital Transformation.

## IV. Results

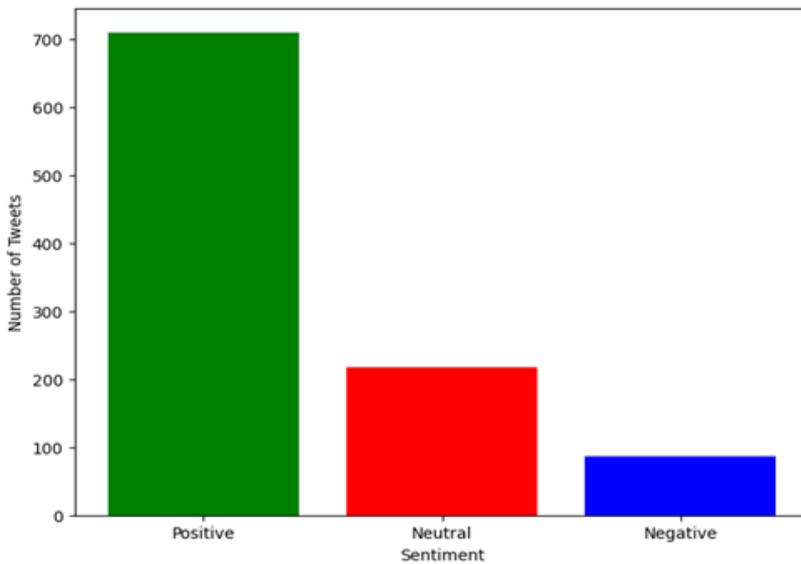
This section presents the results of sentiment analysis carried out on 1014 tweets regarding Agile methodologies and digital transformation. Sentiment analysis is done using the VADER tool, which provides the proper distribution of sentiments and dominant attitudes in the collected tweets.

### *Sentiment Distribution*

This has shown different trends in the way sentiments were distributed for these tweets, which ranged from January 31, 2023, to August 18, 2023. From a total of 1014 tweets, the results showed that:

- Positive Sentiments: 69.13% of the tweets, translating to 701, had positive sentiments. This portrayed that there was major enthusiasm and approval regarding Agile methodologies and digital transformation.
- Negative Sentiments: 8.48% of the tweets, translating to 86, had negative sentiments. This is some indication that some users do have critical views or are a little reserved toward these topics.
- Neutral Sentiments: In fact, 22.39% of the tweets were neutral, showing that it is filled with facts or objectiveness to that extent, neither in support nor an attack on Agile and digital transformation.

**FIGURE 1:** Sentiment Distribution



These proportions put forward the general view of the sentiment dynamics of Twitter discussions related to Agile methodologies and digital transformation. A high level of positive sentiment shows the overall favourable perception by users, which is basically in line with the optimistic and proactive ethos that characterizes Agile practices and efforts for digital transformation.

Negative sentiments, though lower in proportion, reflect critical insights about potential shortcomings or drawbacks related to the use of Agile methodologies. This may provide insight into areas needing improvement or problems which have to be addressed.

Neutral sentiments, which predominate to a large extent, show tweets that may rely on furnishing information or reporting facts without expressing opinion. This subset will contribute to a more balanced sentiment landscape and perhaps an objective look into discussions of Agile and digital transformation.

## V. Discussion

The above dominant positive portrayal is an indication of how well public opinion is in harmony with the principles of Agile methodologies and digital transformation, and thus may have repercussions for organizational decision-making. The common benefits arising from this reception by the Twitter community included collaboration, adaptability, and the delivery of value. In that respect, it allows organizations to leverage such positive perceptions in reinforcing the principles of Agile, employee morale, and organizational change.

While less in number, negative sentiments hint at points where scepticism or critiques occur. These critical sentiments create opportunities for organizations in better addressing their concerns and adapting their Agile and digital transformation practices through becoming responsive and with full awareness.

These neutral sentiments are also used to express content that is usually objective or informative. Knowing what these neutral expressions are provides an opportunity to create clarity or a request for information that will add value to the general sentimental landscape.

### *Implications and Further Analysis*

The distribution of sentiments in the tweets collected here speaks to an alignment between public sentiment and principles underpinning Agile and digital transformation. This alignment comes with significant implications for organizations looking to such methodologies as means toward boosting innovation, adaptability, and customer-centricity.

Further analysis could drill deeper into themes and topics that were particularly positive, negative, and neutral sentiments, thereby furnishing a more profound understanding of the topics and context driving the sentiment dynamics. Besides, time trends could show how sentiments change over time, offering insight into the shifting discourse about Agile methodologies and digital transformation.

## **VI. Conclusions**

The sentiment analysis results provide a window into the prevailing attitudes within the Twitter discourse surrounding Agile methodologies and Digital Transformation during the period from January 31, 2023, to August 18, 2023. The remarkable predominance of positive sentiments reflects the resonance of these transformative concepts with the values, aspirations, and goals of both practitioners and enthusiasts. Understanding these sentiments enriches our comprehension of the impact and implications of Agile methodologies and

Digital Transformation within contemporary organizational landscapes. In addition to providing insights into public sentiment, sentiment analysis results can be used to inform a variety of organizational decisions. The overwhelmingly positive reception aligns with the advantages of Agile methodologies and Fig. 1. Sentiment Distribution of Tweeter Data Digital Transformation, providing organizations with a strong foundation for decision-making. Additionally, addressing the smaller fraction of negative sentiments can lead to a more comprehensive understanding of potential challenges and areas for improvement. The alignment between public sentiment and the principles advocated by Agile methodologies and Digital Transformation carries substantial implications

for organizations. Beyond strategic alignment and communication strategies, sentiment analysis can inform decisions related to project prioritization, resource allocation, and even stakeholder engagement. By exploring the content associated with each sentiment category and analyzing sentiment trends over time, organizations can gain deeper insights into the evolving dynamics of public sentiment, enabling them to make data-driven decisions that enhance innovation, adaptability, and customer centricity.

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# H2H Marketing Role in Shaping Consumer Behavior

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## **Abstract**

*H2H (Human to Human Marketing) is a new approach already in Albania, which emphasizes the importance of direct and authentic communication between brands and customers, putting consumer at the center of marketing strategies. This study examines the improvement of customer behavior and the effectiveness of marketing campaigns in Albania, by analyzing differences between traditional and digital marketing. The focus is on evolving the way message is delivered, the diversity of creative codes, and the importance of reinforcing brand's attribute to stand out in the market. In other words, "the brand" faced with customer demands, which tends to meet any of their requirements, is the key driver in promoting products and services, in the most original way possible. Technology plays a key role in strengthening communication and educating customers, enabling the use of innovative and creative tools in advertising. Through this approach, it is concluded that H2H marketing is essential to meet the needs of consumers, aiming not only at direct communication, but also effectively solving their problems and creating effective future strategies.*

**Keywords:** *H2H marketing, Brands, Selling and Cognition, technology, consumer*

## I. Introduction

The stages of business development in the times of capitalism, where the global geopolitical situation has changed with attractive steps in recent years, diplomatic relations between different countries in the region, Covid 19, the relentless war between Russia and Ukraine or even the increase of global growth The heat itself, have influenced the way the EU member states' own economies and internal policies develop, as well as the Albanian state. In these historical developments, the attachment of companies to the point of risk in heavy investments in marketing with the latest global innovations comes to life, where they sometimes make us dream with their creativity and sometimes ask us how many possibilities for expansion a company has to create even more sophisticated marketing today.

Convergent marketing is a marketing strategy that uses different communication methods and channels to reach target customers. In influencing the behavior of target consumers in Albania, convergent marketing can be successful by using a wide range of communication channels, such as social media, online advertising, radio, television and print, as well as information obtained from the monitoring consumer behavior to change and adapt their overall marketing strategies. Convergent marketing can help build a familiar and trustworthy image for a brand or a new brand in the market. Although in Albania the process of technological development and extension to online media is already quite significant, the priority audience remains television, where traditional marketing itself has adapted old communication channels into performing pieces of online media.

It is worth mentioning that today one of the most important trends of consumer absorption in the service is H2H marketing. Human to Human (H2H) marketing is a marketing strategy that focuses on building connections with customers on a personal level by focusing on their experience and emotions. H2H opposes the traditional marketing model, where communication with customers was too distant and unpleasant. In H2H, communication with customers occurs on a human level and in real time. This type of marketing requires communication to be open, sensitive and based on the customer's needs and wants, creating strong connections and loyalty between the customer and the brand.

The purpose of this research is to identify the impact of convergent marketing and H2H marketing tactics on consumer purchasing and business transaction growth. This study sheds light on consumer culture, on how each of our experiences is influenced by and reacts to the very communication channels we are surrounded with as part of our daily lives. Increasing sales is one of the main objectives of marketing and consists of finding ways to influence consumers to purchase the product or service offered. In this regard, there are several strategies that can

help increase sales using marketing, so in this article we will see the tendency of companies to adapt directly to the customer, the effectiveness and approach of marketing campaigns with the differentiation between them from traditional marketing to traditional marketing, the latest developments in digital marketing, what has been the impact of the types of marketing used and what unites them in the behavior of target consumers in Albania. But in this study, there are also limitations such as: subjectivity since we know that the questionnaires are simply self-evaluative and sometimes do not give us all the truths that we expect from the interviewees as well as the limited number in 3 different brand sectors of the interviewees.

## II. Literature Review

H2H (Human-to-Human) marketing is a concept related to strategy in the marketing department, where it is a priority to create close and reliable relationships with customers, (Philip Kotler, Waldemar Adam Pförtsch, Hoch, Uwe Babu & Ramamoorthy, 2020; This strategy treats customers as unique individuals who have benefited from the product or service and encourages personal communication, creating healthy relationships with a long-term goal and not just as numbers in a database with incentives to transact according to the business achievement plan objectives. In the global market, where culture, language and customs differ from one country to another, H2H marketing performs a special function by focusing on people and understanding their particular needs and preferences, companies can build close relationships with customers in foreign markets and increase their success in these foreign markets, so that the brand maximizes demand flows from all over the world.

H2H marketing is a new concept that helps create close and trustworthy relationships with customers. This concept focuses on people and helps build long-term relationships with customers. (Philip Kotler, Waldemar Adam Pförtsch, Hoch, Uwe Sponholz 2020). According to Sponholz, marketing is “the process of creating, delivering, communicating, and evaluating offerings to meet customer needs and wants and to achieve organizational goals” (Waldemar Pförtsch and Uwe Sponholz, 2019). This definition highlights the importance of understanding customer needs and wants and building offers and marketing strategies to meet those needs and wants. Regarding business, Sponholz perceives it as an organization that aims to earn income and grow in a certain market (Uwe Sponholz, 2020). He explains that companies can build a positive image and significantly increase revenue by responding to customers’ needs and wants and offering quality products and services.

Another important point in this study is digital marketing, which is seen as an important channel in H2H marketing, where it is intertwined with the fundamental principles of H2H marketing. Digital marketing is considered one of the most important marketing channels whose advantages include consumers' broad, fast, cheap and easy access to products and services with the ability to complete buying and selling processes almost anywhere and at any time. On the part of businesses, digital marketing consists of a series of practices that allow them to communicate and interact with consumers, in a lively manner, influencing consumers and their purchasing decisions (Babu & Ramamoortthy, 2020; Dwivedi, et al., 2021; Madan, 2021).

It is undeniable that over the last 20 years marketing has seen a shift in what is called the “digital transformation” of marketing, widely accepted and studied by both practitioners and academics. Digital advertising, e-Commerce, and mobile services have led to a revolution in the way consumers interact and provide these products and services (Li et al., 2021). However, due to the ever-evolving nature of the digital ecosystem, it is imperative that businesses keep themselves updated through evolutionary approaches in how they attract, interact, connect, network and integrate consumers through a digital marketing strategy and Badlo, 2021).

The COVID-19 pandemic has acted as an influence pushing people towards adopting social media and other web applications for entertainment, socializing, shopping and keeping them consistent with news, among other things and activities. Taking a concrete look at marketing, the pandemic has placed an emphasis on social media and telemarketing (Mason et al., 2021). The numbers are indisputable: more than half of the world's population, around four billion people, actively use social media, 98.8% of them access social media platforms via mobile phone. Research by (Dubbelink et al., 2021; Mason et al., 2021; Patil et al., 2021; Statista 2022) showed that marketers who had used social media for a year or more reported significantly better than those with less experience in the field.

The permanent objective of marketing activity is to create a healthy relationship between companies and customers, leading to the creation of value for both parties. To do this it is necessary to focus on the right market segment, to understand its needs and expectations in creating a loyal customer base. All these findings remain valid in the digital marketing industry, introducing some special characteristics and requirements (Wibowo et al., 2021). Digital marketing tools include social media, mobile applications, online advertising, viral content, contextual advertising, targeted advertising, native advertising, and content marketing (Dubbelink et al., 2021; Wibowo et al., 2021).

Social media is a relatively important term that has evolved as a way to describe various platforms for online communication. In general, the term social media refers to “any technology that facilitates the distribution and sharing of information over the Internet.” More specifically, Kaplan and Haenlein define social media

as a “group of Internet-based applications that build on the ideological and technological foundations of Web 2.0 and that enable the creation and sharing of user-generated content” (Kaplan and Haenlein, 2010). Social media (Mayfield, 2011) is changing the way information is communicated to and from people around the world. The rapid use of social media is changing the way organizations respond to consumer needs and wants and is changing the way they respond to competitors (Mayfield, 2011). Companies now have the opportunity to engage in broader and more innovative forms of mass communication online using social media marketing tools (Stelzner, 2010).

Social media marketing is the use of social media platforms and websites to promote products and services. Social media has dramatically changed the relationship between product/service providers and consumers. Nowadays, social media is used as the main source of product/service information for consumers who spend a lot of time there. Social media users feel empowered, having more opportunities for online participation, with the benefits of convenience, self-organization, self-education, richness of information, alternatives, options, reduced costs and time, which are highly appreciated (Babu & Ramamoorthy, 2020); (Dubbelink et al., 2021).

But on the other hand, companies today invest in platforms with more Google search in search and name bending, they invest in dedicated websites, where the focus is on online sales. In this concept, automatic formats are established for the way interested visitors communicate with customer service and the process of fulfilling the request, up to the form of online payment and with the logistics of distributing the product in the hands of the customer. To create a website today, a corporate communication strategy, the form of writing, color recognition and the draft template for products and more are necessary. On the other hand, today sites should not only sell or make a turnover but build a clientele within a framework of growing reliability and where the preferential customer translates into a loyal customer in the future. On the other hand, connecting the brand communication strategy on the website with social media are different types of mediums where the marketer enjoys the greatest potential to test and put into operation the development of mediums such as the web page or Instagram, LinkedIn, Facebook, Link tree, Tweet, Pinterest, Google My business and even the latest social networking phenomenon like Tik Tok.

For businesses, creating a brand presence on social media, and social media in particular, gives them the opportunity to, among other things, increase customer engagement through interactions that go beyond the purchase, including generation of new ideas from customers, the accumulation of learning in relation to customer preferences and other characteristics, thus exploiting the positive effects of Word of Mouth (WoM) advertising. Traditionally, WOM has been defined as “oral, person-to-person communication between a recipient and a communicator,

which the recipient perceives as non-commercial, about a brand, product, or service” (Arndt, 1967). For a company, gaining a competitive advantage through this particular digital channel means increased branding, awareness and a better brand image, which leads to greater brand loyalty, which, in turn, makes the overall marketing strategy more effective and efficient (Babu & Ramamoortthy, 2020). Integrating digital marketing strategy within an enterprise’s overall marketing strategy seems to be an inevitable organizational solution for sustainable business and good results (Malesev & Cherry, 2021; Santos & Pinto-e-Silva, 2021; Tairova, 2021).

With the wide range of advertising forms, the audience is now not only versatile but also with concepts with high technological investment and high public impact. The competition from competing companies is not only seen in the expenses incurred for television broadcasts, in the converging message it transmits, in the website or in the social media it personalizes, but it goes to an even higher level: the more innovative ideas it has and puts into play in implementation, the more it strengthens the positioning compared to the competitor on the market. Adaptation that creates a smartphone game that is a form of entertainment, time-consuming and even addictive for different target groups. One way for a company to easily grab customers’ attention is to create its own branded games. Gaming is a great customer retention technique because customers generally spend more time on a platform when they are busy playing games. The game’s interactive content, subtle product positioning, and valuable incentives for winning make it a gamer’s paradise. The right game can excite users and make them want more. Jane McGonigal, 2008, examined the positive impact that games can have on everyday life and how they influence consumer behavior.

Consumer behavior is a term that can generally be used to refer to the actions and decisions that influence consumers’ purchasing behavior (Solomon et al., 2017). Consumer behavior mainly includes purchasing activities, consumption and disposal actions, behavioral, mental and emotional responses related to the decision to make a purchase (Zhang & Benyoucef, 2016). Consumer behavior is a field studied by marketing science and consumer psychology. Understanding and analyzing consumer behavior can help companies adapt their marketing strategies and develop products and services that meet consumer needs and preferences. For a company, consumer behavior can be influenced by marketing strategies such as advertising, promotion, pricing, packaging and additional services. Consumer behavior depends on a number of factors, such as previous experiences, perceptions, personal preferences, culture, social group, social influences and economic changes. Consumers are sensitive to price, quality, brands, advertising and other marketing influences on their purchasing decisions.

Kuester S. (2010) defines consumer behavior as the study of individuals, groups, or organizations and the processes they use to select, obtain, use, and

dispose of products, services, experiences, or ideas to satisfy their needs and desires. According to Kotler and Keller (2011), consumer purchasing behavior is the study of the ways in which individuals, groups and organizations acquire and dispose of goods, services, ideas or experiences in order to satisfy their needs and desires. Kotler & Keller (2012) defined consumer behavior as the study of how individuals, organizations, and groups choose, purchase, and use products, services, experiences, or ideas to satisfy their needs and desires. According to Rami (2012), consumer behavior refers to the choice, purchase and consumption of goods and services for the satisfaction of one's desires, while consumer purchasing behavior concerns the decision-making processes and acts of consumers involved in the purchase and use of products. You further explained that many factors, specifications and characteristics influence the consumer in his decision-making process, purchasing habits, purchasing behaviors, the brands he buys or the retailers he turns to. Rami (2012) in his study on factors influencing consumer behavior explains that consumer purchasing behavior and the resulting purchase decision are strongly influenced by cultural, social, personal and psychological characteristics. Understanding the impact of these factors is essential for marketers to develop appropriate marketing mixes to attract the target customer.

Digital marketing has changed the growth of the online market and changed the behavior of online consumers. This technology changed consumer behavior as it shortened the purchasing time, and the product was also available in the domestic market and global market. Today the customer has the opportunity to view the product range and make an informed choice via the Internet. Consumers have many more opportunities to search and gather information to make decisions about planned purchases. The availability of information has increased significantly with the expansion of the Internet, the improvement of the full-text search engine algorithm, and the development of social networks and mobile technologies (Miklosik, 2015).

### **III. Methodology**

In order to achieve full realization of the aims and objectives of this study, a combined method such as a combination of qualitative and quantitative methods was used to obtain a comprehensive understanding of the studied phenomenon intertwined with literature review or secondary data. The literature review is based on numerous research by foreign and Albanian authors, in articles, scientific publications, books, scientific journals, study reports as well as suggestions from marketing professionals. To obtain more information, a structured questionnaire tool with two sections was used, which included questions from which information was collected based on the set objectives. The primary data are those obtained

from the distribution of 100 questionnaires on consumers and their segmentation, where all of them proved to be valid, and the other questionnaires on employees with a specific position in one of the professional fields of the marketing department in the Albanian companies of the city of Tirana in the period May-June 2023. The questionnaires built for the target group of consumers and those for the target group of marketing managers or employees of companies, marketing agencies or corporate employees in Albania, have two segments, in particular where the first section includes data such as age range, gender, education and average level of personal income and the second section includes concrete questions. Secondary data is the data that will present the theoretical data obtained for this study. The questionnaires were distributed via the dedicated Google Forms link. All the data were structured into tables and graphs using Excel where the classification was done by ordinal and nominal scale, helping us to carry out a descriptive analysis of all the information contained in each questionnaire.

## **IV. Data Analysis**

Through the analysis of data obtained from questionnaires developed in the target groups of consumers and marketing managers in Albania, they will once again demonstrate how H2H marketing is compatible with satisfying consumer needs and how the impact of the types of marketing used in behavior purchasing habits of consumers in our country. Below, more specifically, we will present all the data obtained from the answers to the questions with the related analyses. First, we will present the interpretation of the data from the first questionnaire, by extracting those data that are considered demographic, i.e. gender, age, professional training, income level and others.

### *Demographic and general characteristics of the first questionnaire*

From the demographic data obtained, we noticed that among the consumers interviewed, the dominant average age was the 18 - 25-year range with 58.9%. This is also related to the fact that most digital marketing users and those who make more online purchases are young compared to other age groups. When asked about their gender, the dominance percentage was found to be male at 59.3%. Regarding the level of education, according to the data obtained from the questionnaire, these are high level participants, 83.5% of the interviewees have a high level of education. This result demonstrates the high level of education of the interviewees who participated in this study. The questionnaire also identified the average level of monthly income of citizens, where it emerged that 59.6% of them have an average income between 350 and 700 euros.

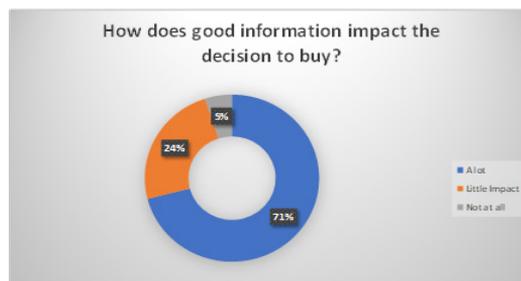
**GRAPH 1:** Do you prefer to buy national or foreign branded products?



Source: Authors.

Furthermore, they were asked, in their lifestyle, which products/services they consumed the most, local or foreign, and based on the answers they gave, it turned out that they were more likely to purchase foreign branded products than local ones. 64.5% of those interviewed said this. This is an important signal for all Albanian brands that want to be promoted in our country and explode in market adoption. As a people where money does not often leave the comfort zone, brands have to work hard on the messages they convey, mainly in the launch of new products. This is due to confidence in existing products and the structure that has already received the information and has passed at least one level of periodic consumer experience. From the data presented in the graph below (Graph 2) it emerges that 70.9% of those interviewed believe that good information on these purchasing methods has influenced them as consumers, making them more aware of their purchasing behavior, and more specifically in the choice of brand a product or service on the markets. 24.5% of them said that good information had little effect, while the rest had no effect at all.

**GRAPH 2:** How does good information impact the purchasing decision?

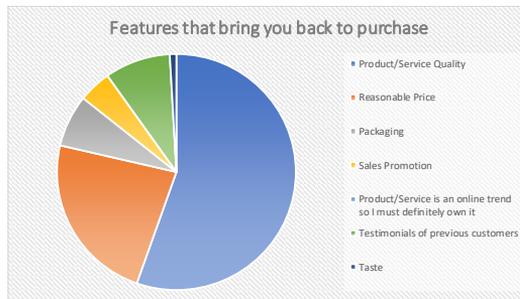


Source: Authors

Other results obtained in the analysis of consumer behavior, specifically linked to the main impression of trying a product for the first time, showed that 50%

of them preferred to have references from their relatives regarding the products/ services purchased. They were also asked what main characteristics the products or services purchased should have in order to be able to return to the same purchase without obstacles. Chart 3 below presents these reasons.

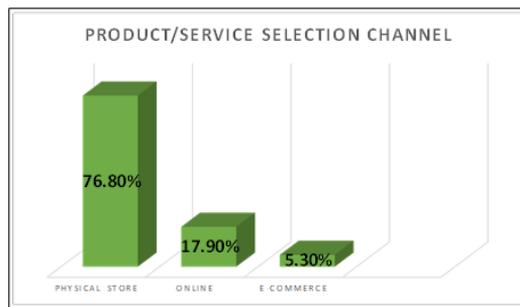
**GRAPH 3:** Features that bring you back to purchase



Source: Authors

For 62.2% of those interviewed, the main characteristic that forced them to return for a product/service was the quality of that product/service, for 26.1% it was the reasonable price offered to them, and so on. If they had to choose between a new product on the market and an existing one, 35.1% of them would be more inclined to purchase an “existing product” because they knew it and had created convenience for them, 27.9% did not have a real one problem, but it was enough that purchasing that product satisfied the need they had, 27% of them preferred to experiment with new purchases, while 9.9% could try new products/services only when they were on offer. The following data (Graph 4) will show us that the preferred channel for obtaining the product/service was the physical store (76.8% of them chose the physical store, 17.9% online shopping and 5, 3% e-Commerce).

**GRAPH 4:** Product/service selection channel



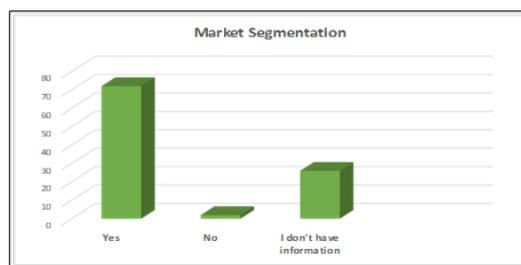
Source: Authors

When asked how much they would recommend purchasing products on social media, 64% of them responded that they would not recommend purchasing products on social media as they have not had satisfactory results from purchasing on them, because most purchased products had not arrived as advertised in various media, 22.5% not at all, and only 10.8% of them recommended such a purchase because they did not have time and physical costs.

### *Demographic and general characteristics of the second questionnaire*

As in the first part, also in the analysis of the data from the second questionnaire, prepared for the employees of various Albanian companies who have at least one profile dedicated to the communication or marketing profession, the demographic and general characteristics are the following: The age group with the largest number of study participants was those between 36 and 44 years old with 62%. The most representative gender is female with 68% of participation. Regarding the job position, it emerged that 32% of them were marketing managers in different marketing agencies, freelancers or current job positions in different Albanian companies. To the question “Does the company you work for use differentiation strategies or not?” They responded that the company they worked for applied differentiation strategies to offer products that were distinct from competitors in the market. (82% of consumers interviewed agreed with this fact to be as competitive as possible on the market). The use of such strategies would be an important element to improve and increase the acceptance or positive perception of consumers when presenting evaluations or complaints about the products (services) received. Furthermore, 64% of those interviewed responded that their company focuses more on the quality of the product/service provided, than on achieving profitable objectives. When asked whether the company has carried out an analysis on market segmentation and different marketing strategies, 72% of respondents responded positively. For most of them, this market segmentation would make it easier to meet the needs of consumer groups and increase their profitability. This is highlighted by the data in the graph below (Graph 5).

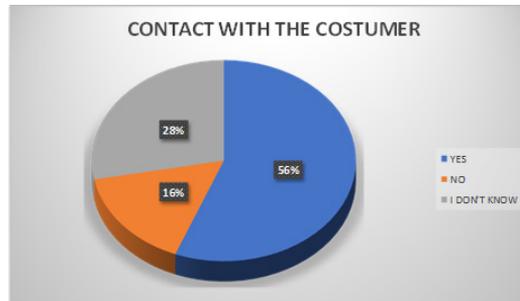
**GRAPH 5: Market Segmentation**



Source: Authors

All (100%) of respondents responded that the companies they managed occasionally took initiatives in marketing strategy with a defined annual budget plan because such steps would influence the conduct of their activities in a more targeted and cost-effective way for the company.

**GRAPH 6:** Contact with the customer



Source: Authors

To the next question: has the company created ready-made scripts for its employees on first contact in communication with the customer for each communication channel? 56% of respondents responded positively, 16% had no contact with the customer and 28% said they had no information. (Graph 6)

For 72% of those interviewed, their company is also attentive to customers' reactions and feedback because in this way the customer loyalty strategy would provide them with an even more personalized service. Several companies that use marketing mix strategies are more profitable and successful than those that do not, resulting in significantly improved sales, profitability, and greater productivity than those companies that do not use these concepts. When asked about this, specifically the best form of strategy used, 66% of them thought that the Mix strategy, part of H2H marketing for most consumers, was the best form for them today. It must be said that the Marketing Mix for Albanian marketers is a challenge, since there are still companies that have a marketing manager who carries out every necessary work process, but this constitutes a risk for the company itself, since efficiency in work for the development of ideas and new strategies, mechanical activities in work processes at your service.

In these times of rapid technological development, respondents said that various technological tools were what made it easier to conduct lead generation in the companies they worked for, making transactions faster. 94% of them said this as they believe that the advancement of digital technology has enabled lifestyle change as they were online most of the time on social networks using different tools to get the desired information. Everyone was also asked for information on job positions, working hours, evaluations in these companies, work plans in the context of marketing initiatives, etc. The majority of those interviewed said

they were open to work plans integrated into marketing initiatives to increase the recognition of their personal brand, inside and outside the company (72% say this), 62% of those interviewed work more than 8 hours a day and had weekends free, while 38% of them chose the provision of digital marketing services as a job position where they made a total contribution to the work process.

In Albania every marketing department has expanded communication channels, and the market needs professionals. Therefore, it is very important for brands themselves to elevate attributes to further develop brand-loyal marketers. The marketer’s job position in the company serves not only to overcome brand recognition values, but also to increase support to generate higher transaction figures.

**GRAPH 7:** Information about new marketing concepts



Graph 7 above shows the responses to the question of how knowledgeable respondents were about new marketing concepts. 62% of them were constantly informed about new concepts of marketing forms, 36% were guided by information from colleagues, while the remaining 2% did not have the opportunity to be informed.

Regarding the area’s most in need of improvement to increase their individual skills in the profession, 50% of them responded positively to increasing their sphere of influence and network as this would increase them more professionally at work.

**GRAPH 8:** Areas that need improvement



## V. Conclusions and Recommendations

In the new digital age, many companies in the market are embracing digital marketing strategies even more. The transformation that digital marketing and social media have brought to the ways of communication and interaction between the respective buyer-seller parties has been seen as an effective means of accessing the services/products offered anywhere and at any time, and as a fundamental decision-making tool towards the consumer. Consumers in the city of Tirana attach very high importance to the quality of the product or service when choosing the brand of the product/service. This is a very important point that directly affects the company's marketing as the entire company can be destroyed by negative feedback from its customers, whether they are new or existing customers. They preferred to buy new and existing products of companies due to the location of the business and less on social media. This gives importance to the continuation of the process of synchronizing the forms of brand communication in the growing recognition through word of mouth and in the loyalty of the online public, where traditional marketing still represents a strong point for the public impact in our country. All the respondents had almost the same perceptions among themselves, regardless of age group and other socio-demographic data regarding marketing of various products and services through social media, as almost half of them this accessible marketing through media ensured the process of purchasing that product or service for dedicated business sectors. But, at the time when they were going through an online purchasing process, the main suggestion they had come from their relatives.

The employees of these companies in Albania specified through their answers that their professional development would be linked to possible training in digital marketing. This would develop capabilities to increase the creativity of targeted online advertising with consistent messages, otherwise known as a step to be closer to technology and its latest developments. For them, the companies where they worked had a budget plan, but this does not mean that companies could not save an extra budget in case of invitations to participate in various cultural, tourism, social activities to be part of different communities and groups. From the results of the questionnaire, it emerged that the Mix strategy in H2H marketing has already been extended to our country. The periodic use of different channels will not only be able to target the public according to the forms of mass communication but will favor the presence of the brand among those customers who do not know the product or at least have not tried to purchase it for the first time.

Albanian consumers should be more loyal to the marketing of products and services of different brands, as they should take the necessary time and choose

wisely who their brands are and therefore afford a more direct relationship with their favorite brand. While purchasing a product it is important to gather information about the product that anyone intends to purchase by reading the features, performance, quality, price, warranty and reviews of the product respectively as this will help them understand whether the product meets their needs. Product reviews and ratings from other consumers are valuable resources as this will help you understand others' experience with the product and give you a clear idea of what to expect from this product. Comparing products in their various aspects such as features, performance, price and quality can help you find the most suitable products for everyone.

In Albania, traditional advertising remains the most expensive for brands, but good spot contracting would allow the brand to be visually transmitted on the screen, where the Albanians themselves have the first reliable tool. Marketing managers must understand customers' needs and wants and carry out regular market research and gather customer information to understand what they really want. Big brands or companies need to communicate with customers actively and effectively through different communication channels such as email, telephone, social networks. H2H marketing must necessarily be adapted to meet the needs of the customer, but one must not forget that the way of conceptualizing the message, the creative way of conveying the message and where this message will be conveyed are connected like a chain to each other.

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# Clusters and Competitiveness: Albania's Readiness for Integration into the European Union

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## **Abstract**

*This paper examines the role of clusters as important instruments for increasing the competitiveness of national economies, with a particular focus on their potential for Albania in the context of European integration. At the center of the business environment is the cluster – a group of interconnected firms, industries, and institutions operating in a specific field. Being part of a cluster enables companies to be more competitive as they can more easily find qualified people, efficient suppliers, and operate with higher productivity. Since clusters impact productivity and competitiveness, companies need to study where the clusters in their operating fields are located. In Albania, the concept of clusters remains at an embryonic stage due to economic fragmentation, lack of institutional coordination, and low orientation towards innovation. This paper focuses on analyzing the possibility for Albanian companies to create clusters and thus increase their competitiveness. Ultimately,*

*clusters represent a real opportunity to increase competitiveness and accelerate the country's integration into the European Union.*

**Keywords:** *Clusters, Competitiveness, Albania, EU Integration, Agro-industry, Cluster Policy, Regional Development, SME Cooperation, Economic Transition, Innovation.*

## **Introduction**

Clusters represent a modern concept in economic theory and development policies. They refer to groups of geographically proximate and interconnected businesses, suppliers, service providers, and associated institutions in a particular field, which compete but also collaborate with each other. The concept of clusters was initially developed in the context of industrial economies with the aim of enhancing the competitiveness of businesses and economic sectors.

Clusters enable companies to increase their productivity, innovate more rapidly, and create new businesses within the same sector. According to Porter (1990), clusters are a key element for increasing national competitiveness because they facilitate access to specialised labour, efficient suppliers, and knowledge transfer between actors. They also enable companies to adapt quickly to market changes and technological innovations.

The importance of clusters has grown with globalisation and market liberalisation, as competition has become harsher and companies are required to find new ways to increase efficiency and reduce costs. In the context of Albania, clusters are seen as an opportunity to increase the competitiveness of the national economy and accelerate integration into the European Union.

### *1.1 Purpose and objectives of the paper*

The purpose of this paper is to analyse the role and importance of clusters in increasing the competitiveness of the Albanian economy, particularly in the context of the country's integration into the European Union. The paper aims to identify the opportunities and challenges for the development of clusters in Albania, based on the experiences of other countries and theoretical approaches in the field.

The specific objectives of the paper are:

- To explain the concept of clusters and their role in economic development;
- To analyse the current situation regarding the development of clusters in Albania;

- To identify the benefits that clusters can bring to Albanian businesses and the economy as a whole;
- To provide recommendations for policies and strategies that can promote the creation and development of clusters in Albania.

## II. Literature Review

The concept of clusters has attracted considerable attention in economic and regional development literature over recent decades. Porter (1990) defines clusters as groups of geographically proximate and interconnected companies and institutions operating in a specific field, linked through complementary and competitive activities, creating sustainable advantages for the region in which they are located. This model aims to improve competitiveness through specialisation, innovation, and knowledge transfer among actors.

Various studies have shown that clusters help increase productivity, create new jobs, and strengthen the regional economic structure (OECD, 2007; Ketels & Memedovic, 2008). For example, industrial clusters in Northern Italy and high-tech clusters in Silicon Valley have been engines of economic development, generating innovation and sustainable growth (Becattini, 1990; Saxenian, 1994).

In the Balkans, the cluster concept has been applied successfully in some sectors such as agro-industry and tourism. However, in Albania, existing literature shows that clusters are still in their early stages of development due to institutional fragmentation and the lack of integrated policies (UNDP, 2016). This highlights the need for further studies and the practical application of successful international models in the Albanian context.

## III. Methodology

This paper is based on a qualitative methodological approach, relying on the analysis of existing literature, national and international reports, and various studies related to the concept of clusters and their implementation in different countries. The study analyses theoretical models and best practices applied in European Union countries, as well as the current situation in Albania regarding the creation and development of clusters.

The data used in this paper are secondary data obtained from academic publications, OECD and UNDP reports, and official documents related to the economic development and competitiveness policies of the countries analysed. The analysis is carried out through a comparative and analytical approach, aiming to draw conclusions and recommendations relevant to the Albanian context.

The main methodology of this study is based on a combination of two primary techniques: the top-down and bottom-up approaches. This implies analysing both the existing general data regarding cluster practices, as well as taking into consideration the opinions, evaluations, and perceptions of key actors within this industry.

Efforts have also been made to update the study with contemporary theories on cluster practices. Work has been carried out to gather, process, and analyse information related to the evolution of the food industry and the problems it faces. The collected and analysed information has consisted of:

- The historical development of the food industry in Albania;
- Comparative indicators of the development of this industry in Albania and other Eastern European countries;
- EU directives related to the development of cluster practices;
- The development of such practices in neighbouring countries.

In the second phase, consultative meetings were held with several businesses operating in the oil and fruit processing sector within the food industry. Meetings were mainly conducted with businesses located in Tirana and in districts such as Fier, Lushnje, and Durrës. In these consultations, the concept of clusters and the advantages of cluster practices were initially explained. Business representatives presented the main problems faced by these enterprises, emphasising unfair competition, tax policies, customs tariffs, and government indifference towards small businesses.

### *Identified problems*

During meetings with various businesses, the preliminary findings were:

- Generally, business leaders were distrustful or completely unfamiliar with cluster practices. Overall, it can be concluded that Albanian business leaders view each other as competitors rather than cooperators.
- Besides their lack of knowledge regarding cluster practices, business leaders also demonstrated significant shortcomings in their understanding of management concepts in general.
- Although information regarding clusters was almost complete, business leaders highlighted the lack of accessible information. They claimed there should be more efficient ways of distributing information, which would help them to better understand the environment in which they operate and be prepared for future challenges.

## IV. Competitiveness and Cluster Practices

### 4.1 Competitiveness

Competitiveness is considered one of the primary concerns for companies and governments in every country. Improving a country's competitiveness requires, among other things, mutual understanding and cooperation between all governmental institutions, local authorities, organisations, and businesses within a country. However, this process cannot be considered easy to manage. There are numerous factors influencing it, such as government subsidies, exchange rates, trade balances, cheap labour force, low inflation rates, and others. Competitiveness is the result of many factors and can be expressed through several indicators, but above all, it reflects the productivity of human resources, capital, and physical assets.

#### *External environment of the firm*

- A sound macroeconomic, political, legal, and social framework creates opportunities for competitiveness. In the current phase of Albania's transition, these factors continue to play an important role in expanding the competitiveness of the private sector.
- Openness to trade and investments creates opportunities to stimulate economic growth.

#### *Internal environment of the firm*

- Wages and labour costs / social environment within the firm
- Taxes and duties;
- Currency and interest rates;
- Competition in terms of price wars, understanding consumers, market demands and trends, and innovation.

What is currently required is the undertaking of studies to determine the extent to which basic EU economic concepts can and should be adapted and implemented properly in the conditions of transition countries such as Albania.

Conducting a study on the food industry in Albania, as one of the industries that plays a key role in the country's economic development, would enable the provision of necessary information to analyse the competitive situation of this sector and subsequently answer the question of whether it is possible to intensify

cooperation between firms in this sector as an appropriate solution to the challenges facing the Albanian food industry.

In this context, clustering as a successful practice in many countries of the region focuses on analysing and stimulating competitiveness not by relying solely on individual firms, but on the interaction between firms in a horizontal direction (according to stages of production or processing), among them in a vertical direction, as well as between firms and organisations that provide them with various services.

In the case of the food industry, this implies that agricultural production, the packaging industry, providers of specialised transport services, storage and food control, and the service sector should all be included within the concept of competitiveness.

#### *4.2 Clusters*

A cluster is understood as a grouping of companies or institutions that operate within a specific field, share certain common characteristics, and are complementary to each other while being geographically proximate (Porter, 1998).

“Companies’ decisions about their location should be taken far more seriously than merely calculating labour costs,” states Michael Porter, professor at Harvard Business School. Often, companies choose their business locations based solely on minimizing costs. However, this represents a short-term perspective (Porter, 1998). Business leaders should seek locations that combine the specific resources of an industry within a cluster, enabling firms to leverage specialised suppliers, skilled labour, and knowledge spillovers (Ketels & Memedovic, 2008).

A company’s competitiveness is largely influenced not only by its own decisions and assets but also by the surrounding business environment and the region in which it operates. The business environment shapes the skills, knowledge, and available technologies, as well as the productivity with which a company operates (OECD, 2007).

At the centre of the business environment is the cluster itself – a group of firms, industries, and institutions interconnected within a particular field. By being part of a cluster, a company becomes more competitive as it can more easily find qualified people, access efficient suppliers, and operate with higher productivity (Porter, 1990; Ketels, 2013).

Since clusters impact productivity and competitiveness, companies should study where clusters in their operational fields are located. There has been a tendency to focus solely on company location decisions, emphasising labour costs, energy costs, tax expenditures, etc. However, input costs are not the only consideration. What matters is the total cost, which depends on the quality of inputs and, more importantly, the productivity with which they are utilised. Cheap labour is not

truly cheap if workers are unproductive. Input savings can be overshadowed by logistical costs, delays, and inefficiencies (Porter, 1998).

There are several hidden costs, such as management and coordination costs needed to oversee different locations, transfer new product lines, modernise technologies, etc., as well as inventory costs. Some components may be cheaper to produce in distant locations, but transportation incurs expenses, not to mention delays and risks (OECD, 2007).

Another type of cost is lost time. For example, a product arriving from Asia requires several weeks in transit alone, excluding coordination time. Product cycles are shortening, and lost time forces companies to wait longer before making decisions regarding quantity, quality, style, and other specifications (Ketels, 2013).

Finally, a hidden cost is slow innovation. Changing products and processes is more complex and time-consuming in isolated locations. Knowledge and technology become fragmented and dispersed. All these costs are significantly reduced within a cluster. Excess inventories and lost time almost disappear. Within a cluster, companies can rely on local suppliers, professional workforces, specialised service providers, and local institutions offering training and conducting studies (Porter, 1990; Becattini, 1990). Moreover, within a cluster, there are numerous firms with which to form partnerships. Being part of a cluster facilitates change and accelerates innovation.

In summary, a cluster represents a specific form of business organisation that groups together enterprises within what is called the value chain of a product, starting from raw material suppliers to distributors delivering the product to customers.

A cluster may include:

- Companies producing the same final product or providing the same service;
- Suppliers of specialised inputs, machinery, and services;
- Producers of complementary products;
- Institutions providing specialised training and technical support (universities, training organisations, etc.) (Ketels & Memedovic, 2008).

## **V. Cluster Theory and Transition Countries**

Until recently, the promotion of clusters was based on the experiences of industrialised countries, which may not have found applicable grounds in transition countries (Ketels & Memedovic, 2008). To conduct a comprehensive analysis of clusters and assess their impact in transition countries, it is first necessary to answer several questions before studying the phases through which cluster creation passes.

1. Are inter-company cooperations in transition countries sufficient to develop clusters? (OECD, 2007)
2. Is it possible to design strategies to assist the creation of clusters in these countries? (Porter, 1998)

By studying the development stages or the life cycle of clusters, it is concluded that promoting the creation of clusters in transition countries is both useful and necessary (UNIDO, 2009).

To determine the readiness for cluster creation in a particular economic sector, it is necessary to conduct a sector analysis based on statistical or empirical data. The strengths and weaknesses of the sector should be analysed, particularly its development potential at macro and sectoral levels, in order to determine whether:

- A cluster-oriented assistance strategy can be recommended;
- Which clusters and in which regions require assistance;
- Which clusters and in which regions should be prioritised for support (Ketels, 2013).

The European Union places the success of firms at the heart of competitiveness. At the same time, it emphasises that firms are successful, or rather competitive, when they operate in a “friendly environment” and are supported by institutions (European Commission, 2008). An important objective for increasing competitiveness should be the creation of a supportive and stimulating macroeconomic and institutional environment, which would enable firms to increase their competitiveness and – in line with the country’s economic development objectives – foster economic growth.

Currently, increasing competitiveness is the primary goal of all measures undertaken by the EU to promote economic development in Central and Eastern European countries (European Commission, 2008). The EU concept of competitiveness should help the governments of each candidate country to develop and consolidate an active and market-oriented economic policy to create a favourable environment for business firms.

In this process, candidate countries must face major challenges, such as:

- Transforming the economic system from a planned economy to a market economy (World Bank, 2002);
- Restructuring industrial production (Porter, 1990);
- Structural transition, from an industrial economy to an economy based on knowledge, information, and services (Ketels, 2013);
- Integration into the European Union and the global market (European Commission, 2008).

All these objectives are interconnected. Thus, competitiveness can only be increased when the transformation of the economic system and structural transition are successful, which undoubtedly serve as a prerequisite for successful integration into international markets and the European Union.

As a preliminary measure to increase competitiveness, the EU envisages the creation of a stable environment, which specifically includes establishing a sound political and legal framework, increasing business access to capital resources, developing more efficient production processes, creating new market-oriented products, and opening new markets (OECD, 2007).

Undoubtedly, to become competitive in the long term, products and production processes in these countries must reach international standards. For this reason, candidate countries must be encouraged and engaged in technological changes (UNIDO, 2009)

## **VI. Profile and Role of Agro-Industry in Economic Development**

Albania stands among Balkan countries as a nation with one of the largest agricultural economies, accounting for approximately 19% of its GDP (INSTAT, 2022). Moreover, around 38% of the population lives in rural areas (World Bank, 2021). Compared to Bosnia and Herzegovina and several other countries, agriculture's contribution to GDP is much higher. This sector still plays a more significant role in the Albanian economy than in any other European country, including neighbouring Southeast European nations.

Considering the aforementioned achievements and challenges faced in meeting the population's food needs, as well as other issues related to improving import-export balances, orienting farm activities towards market production, increasing the added value of agricultural products through processing, and enhancing product competitiveness in regional and wider markets, it is clear that the rapid development of agro-industry constitutes one of the fundamental problems of current and future development.

Since the early 1990s, significant transformations have occurred in the Albanian economy in general and in the agricultural sector in particular. Starting from 1998, there has been growth and modernisation in both product and production processes within agro-industry. Nevertheless, this sector has faced a series of difficulties:

- Fragmented production units;
- A large number of producers, often non-professional;
- Uncertainty regarding land ownership;
- Lack of financial support mechanisms;
- Limited access to credit;

- Poor logistical infrastructure;
- Lack of technological support structures;
- Lack of market information;
- Immature commercial relations;
- Underdeveloped processing industry.

Often, discussions highlight the good potential of the agro-processing industry, citing advantages such as:

- Motivated and educated workforce;
- Low labour costs;
- Very favourable conditions for growing various grain varieties;
- Supportive government attitude.

While some sectors of the agro-processing industry are developed, the overall comparative position remains low. Compared to other transition countries, this sector in Albania has a short history. Many structures prior to the 1990s have disappeared or undergone restructuring to adapt to the new economy. The most concerning problems for this sector are:

- Predominance of small-scale production and its associated problems;
- Dependence on imported raw materials leading to high cost structures;
- Outdated technologies and equipment resulting in low-quality and unsafe products;
- Poor marketing and management;
- Low capacity and weak financial positions.

In terms of opportunities, the Albanian agribusiness sector should aim for:

- Product and market consolidation;
- Improving product quality, aligning with European standards, and certifying production processes;
- Developing marketing channels both domestically and abroad;
- Import substitution.

Despite positive changes, the contribution of domestic agro-industry to meeting population needs remains low, around 25%, leaving imports with the largest market share. This entire situation analysis leads to the following conclusions:

1. Firms that have adopted contemporary technologies can offer high-quality and competitive products, accepted even in foreign markets (e.g. beer and water production).

2. Large-scale production units are essential to exploit economies of scale advantages.
3. Developing forms of cooperation and encouraging farmers to increase cultivated areas for processing raw materials (e.g. sunflower seeds) would enable more favourable prices for domestic agro-processors.
4. New forms of business organisation should be encouraged, such as processing cooperatives and joint ventures, which are increasingly imposed by market developments and competition as mechanisms to enhance market power (in the case of joint ventures) and facilitate negotiations between Albanian agro-industries and foreign firms.
5. Efforts for drafting and approving a full regulatory framework for the production, labelling, and marketing of food products in line with international market requirements and standards regarding origin and quality should be valued, while ensuring the enforcement of these essential standards.
6. Encouraging entrepreneurship in collecting farm products, particularly in agriculturally potential areas, will gradually create the agricultural market in Albania over the medium term, opening integration opportunities in regional and European economies.

Government policies should focus on:

- Sustainable growth of agro-industrial production;
- Creating a suitable environment to promote domestic and foreign investments in this sector;
- Enhancing the competitiveness of food products in local and foreign markets;
- Improving the quality and marketing of agro-food products.

Exports should be increased, particularly for characteristic and high-quality products such as olive oil, fruit juices, water, and other beverages. Priority in expanding these exports should be given to regional markets, taking advantage of Albania's strengths, such as:

- Very favourable atmospheric conditions and Mediterranean climate, allowing for a longer growing season for agricultural products than other regional countries. This creates opportunities for diversification and differentiation of Albanian farms.
- Early market entry with open-field products, which neighbouring countries do not achieve.
- Preference and good image of domestic products among Albanian consumers, related to key characteristics such as freshness, taste, and low chemical use.
- Proximity to EU markets for exports and technology transfer.
- A relatively educated and technically trained workforce.

At the same time, weaknesses for achieving export potential should be highlighted:

- Outdated and unsuitable technologies leading to low-quality products that fail to meet international standards;
- Low yields and high production costs per unit;
- Limited financial resources for investment;
- Lack of advanced marketing infrastructure for food products;
- Fragmented agricultural land;
- Low agricultural credit availability.

On one hand, the Ministry of Agriculture should enhance cooperation with farmer communities to increase farmer associations producing for export. On the other, the Ministry of Finance and Customs Authority should continue providing appropriate facilities for food product exports. Despite support measures already taken to increase competitiveness, much remains to be done. The government has undertaken several measures aimed at supporting the agro-food sector and increasing its competitiveness, including:

- Reducing customs duties on machinery and equipment to 0–2%, in line with national policy measures aligned with EU integration requirements, thereby encouraging technological modernisation within the sector (INSTAT, 2022; Ministry of Finance, 2021);
- Lowering customs duties on certain raw and auxiliary materials for the food industry from previous rates of 10–15% to approximately 2%, depending on product classification, thus reducing production costs and enhancing price competitiveness;
- Allocating a significant portion of EU (IPARD), World Bank, and other international funds to support agro-food businesses in establishing new agricultural processing lines and upgrading existing technologies (European Commission, 2022);
- Consolidating and strengthening the role of the Export Promotion Agency, to better support Albanian producers in accessing regional and international markets;
- Promoting the consolidation of farmer associations and other forms of cooperation, based on production and marketing activities, to increase market power, improve supply chains, and ensure better bargaining positions for farmers and processors alike.

## VII. Discussions

### *7.1 Is there any cooperation between Albanian agro-processing firms?*

An assessment of the current competitive situation indicates that cooperation between small and medium-sized firms throughout the value chain of agricultural products is virtually non-existent. Under these circumstances, speaking about clusters in this sector is difficult, as there is no form of coordination from either private or public institutions. This creates the impression that businesses in this sector do not feel the need to collaborate with one another.

Vertical integration or efforts to develop agro-processing industries across multiple stages of the value chain remain absent. Trust and security in cooperation among actors within this industry are not yet seen as factors favouring increased competitiveness.

Any form of cooperation, particularly those initiated by firms themselves (bottom-up), could and should serve as a favourable framework for preparing and implementing an assistance programme oriented towards clustering.

Generally, firms are interested in organising industrial cooperation within the framework of an association, enabling them to fulfil customer orders when individual firms lack capacity and to participate jointly in trade fairs as effective forms of product promotion. Despite sporadic efforts made so far, it can be said that a lack of experience in cooperation between firms and in managing associations on the one hand, and a lack of advisory support on the other, has resulted in limited outcomes.

Additionally, supply linkages between agricultural producers and domestic processing industries have been unsatisfactory, as processing firms have attempted to ensure regular supplies of raw materials through formalised vertical cooperation primarily with foreign markets. Many firms in this sector (e.g. wine and vegetable oil production) rely significantly on imported raw materials from neighbouring countries. This situation fails to secure cost advantages for Albanian products made from imported raw materials due to higher transport costs from the country of origin. Consequently, domestic products with relatively higher costs face fierce competition from lower-priced imported alternatives.

Significant barriers in this regard include the existence of numerous small and fragmented farming units, which do not offer contracts and supply guarantees (in terms of time and quality) to processing firms; lack of distribution and marketing channels and organisations to collect, aggregate, and process agricultural produce; and lack of guidance and market information for these farming units from domestic processors regarding market requirements and potential cooperation.

There is a clear need to improve cooperation in the interest of enhancing this sector's competitiveness.

Furthermore, exchanges between the industry on the one hand and educational and research institutions on the other should be intensified, especially considering the increasing competitive pressures and the rising demands for compliance with international standards (quality, labelling, hygiene, etc.). What is particularly needed is closer cooperation to develop innovative concepts that can guarantee the supply and quality of raw materials, improve process management, increase productivity, further develop existing products, and create new ones.

Pressure on agro-industry should increase towards:

- Improving operational efficiency to benefit from economies of scale, enabling firms to reduce unit production costs and thus gain cost advantages for greater market penetration domestically and internationally;
- Expanding the range of available products within specific categories. Currently, the industry's offerings lack diversification, with many assortments within a category missing, leaving market gaps that imported products exploit;
- Increasing product safety through higher hygiene standards, use of modern and attractive packaging, and well-designed, informative labels.

The analysis of this sector's existing situation regarding cooperation forms highlights the need to evaluate and develop these forms in the following directions:

- Horizontal cooperation: joint purchase of inputs; joint marketing to major clients; establishment of an association for fruit and vegetable processing industries.
- Vertical cooperation: improved coordination with raw material producers; greater efforts to formalise cooperation with them despite organisational difficulties due to fragmented supply structures.
- Shared production locations: shared use of storage capacities; subcontracting when individual existing capacities are insufficient.
- Government organisations: the Ministry of Agriculture should prioritise food sector development; the Ministry of Economy should promote participation in trade fairs, conduct export market studies, and introduce quality management practices.
- Research institutions: conducting relevant studies to improve raw materials and quality management.
- Universities and research laboratories: institutionalising contacts to move beyond merely personal connections, as has often been the case to date.
- Joint marketing strategies: joint participation in trade fairs.

Referring to the cluster life cycle and typical development stages, it can be said that Albanian agribusiness entrepreneurs still lack the initiative to enter new markets, continuing to operate mostly in market “niches”. Under these circumstances, the task of Albania’s economic policy (Ministry of Agriculture and Food) should be to initiate discussions on potential changes in global demand, including launching model projects or research activities in this direction. Such initiatives would enable the preliminary clustering phase to be accompanied by the expansion of supportive infrastructure (research institutes, training courses) and the creation of model projects to serve as guides.

To build trust in cooperation between private and governmental actors, new forms of dialogue and cooperation are needed. Despite efforts to support small and medium-sized firms, it can be said that there is neglect in encouraging these firms, which hold the greatest potential for cluster creation.

All economic policy procedures should emphasise the active role of government actors in promoting competitiveness. This is because neither national nor regional competitiveness arises naturally; rather, it must be created. This assumption has nothing in common with a socialist planning mentality. In a free market economy, economic and political decisions are not drafted and implemented solely by government actors but are the product of dialogue between government and the private sector.

The following section outlines the roles that various actors – the state, public and private institutions, and businesses – should play in promoting and enhancing competitiveness

## *7.2 The Role of Actors in Promoting Competitiveness and Cluster*

### *The Role of the State (macro level)*

Government actors play a leading role in structuring the macro level or regulatory framework. However, in designing the institutional environment and supporting cooperation at the micro level, the government has a moderating role (Ketels & Memedovic, 2008). In transition countries, government actors must adapt to their new role as regulators and promoters of competitiveness (OECD, 2007). The essential tasks of government actors in cluster-oriented strategies include:

- Establishing a legal and administrative framework that promotes competitiveness (Porter, 1998);
- Planning and implementing concepts that support cluster development (Ketels, 2013);
- Promoting international competitiveness by encouraging quality, innovation, appropriate technologies, and access to new markets (European Commission, 2008);

- Stimulating sectoral dialogue (top-down approach) and encouraging the creation of clusters (bottom-up approach) (UNIDO, 2009).

### *The Role of the Public and Private Institutions*

While public administration will continue to fulfil its tasks at the national level, private institutions are better suited to providing services tailored to business needs (Porter, 1990). The tasks of this sector include:

- Simplifying administrative procedures (e.g. business registration, contractual practices, customs transparency, tax collection, inspection systems, etc.) (OECD, 2007);
- Providing training and research (Ketels, 2013);
- Supporting businesses through financial and advisory services (UNIDO, 2009).

### *The Role of the Business Sector*

The foundations of competitiveness growth, and consequently the economic growth of a region or country, originate from the private sector, particularly from small and medium-sized enterprises (SMEs) (Porter, 1990). The tasks of the business sector include:

- Increasing competitiveness in local, regional, and international markets through appropriate production processes, quality management, product innovation, etc. (Ketels, 2013);
- Cooperating with other firms and institutions (horizontal, vertical, and parallel cooperation, as well as cluster formation) to strengthen regional and sectoral competitiveness (Porter, 1998; European Commission, 2008).

## **VIII. Recommendations**

To alleviate the problems raised by businesses and identified during meetings, it is suggested that efforts be made towards:

- **Improving the business climate in this sector** to increase competitiveness in local and regional markets, particularly considering the opening of the Albanian market through free trade agreements with several regional countries and its accession to the WTO;
- **Stimulating the mindset and actions of key actors** involved in enhancing competitiveness and exploiting competitive advantages;
- **Completing legislation and the regulatory framework** related to competitiveness practices to reduce misinterpretations and unsuccessful practices;

- **Providing training and research** to support capacity building in the sector;
- **Supporting businesses through financial and advisory services** to enhance operational effectiveness and strategic planning;
- **Increasing competitiveness in local, regional, and international markets** through appropriate production processes, quality management, product innovation, and market-oriented strategies;
- **Cooperating with other firms and institutions** (horizontal, vertical, and parallel cooperation, as well as cluster formation) to strengthen regional and sectoral competitiveness;
- **Establishing a legal and administrative framework** that promotes competitiveness at all levels;
- **Planning and implementing concepts that support cluster development** within agro-processing and related sectors;
- **Promoting international competitiveness** by encouraging quality standards, innovation, adoption of appropriate technologies, and access to new markets;
- **Encouraging sectoral dialogue (top-down approach)** and supporting the creation of clusters (bottom-up approach) as a sustainable development model.

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