

RECENT EVOLUTIONS OF SMEs IN ROMANIA

Vladimir-Codrin IONESCU*
Viorel CORNESCU**

Abstract

In relation to the social middle class, SMEs play a key role in contemporary economy, while accomplishing several economic, social and technical functions. The present paper analyses the sector represented by SMEs in Romania in relation to relevant indicators like: the density of SMEs in our country and territorially, the regional distribution of SMEs employees, the number of companies that are economically active etc. In its final part, the paper makes a short and comparative analysis with the situation existing within the European Union, while focusing on the ten principles comprised in "Small Business Act" for Europe, with special reference to the "entrepreneurship" principle.

Keywords: *SMEs, density of SMEs, development region, "Small Business Act" for Europe, entrepreneurship.*

1. Introduction

At present it is generally acknowledged that SMEs are a key-sector for sustainable economic development, an important factor for absorbing workforce that is available or that is laid off and, similarly, a flexible vector that facilitates the adaptation of goods and services production to the volume and structure of the market demand.

The development of SMEs has led to an increase in competition, to a mitigation of the monopolist role played by large companies, as well as to the enhancement of exports, while also generating economic and social alternatives. The existence of SMEs has generated an improvement in the economic behaviour of the population and the surpassing of obstacles for certain socially disadvantaged groups, as well as the recovery of some communities which were affected by industrial slump. Similarly, the active presence of these companies in the private developing sector of economy had a favourable impact on the production structures' capacity to adapt to the dynamic of the economic environment nationally and regionally.

The importance of SMEs in contemporary economy is obvious if we consider the multiple economic, technical and social functions which they accomplish. Of these, we would like to mention^{1 2}:

- SMEs bring a substantial contribution to the GDP: between 55% and 95%, in general;
- SMEs produce a large variety of goods and services, while substantially satisfying the demand on the market;
- SMEs support the activity performed by large and very large companies through outsourcing (parts, subsets and/or specialized services);
- SMEs create workplaces for most of the population;
- SMEs offer products and services at lower costs in comparison with large companies;

* Associate Professor, PhD, Faculty of Business and Administration, University of Bucharest, Romania (e-mail: vladimir-codrin.ionescu@drept.unibuc.ro).

** Professor, PhD, "Nicolae Titulescu" University of Bucharest, Romania (e-mail: cornescuviorel@yahoo.com).

¹ The National Council of Private SMEs in Romania, *Strategy 2012-2016*, Bucharest, 2012.

² Cornescu, V., Ionescu, V., *Economia și managementul afacerilor mici și mijlocii*, Bucharest: University of Bucharest Publishing House, 2011.

- SMEs represent the most dynamic sector of economy;
- SMEs contribute to the reduction of unemployment, while absorbing the laid off personnel through the reorganization of large companies;
- SMEs offer to many persons the possibility to achieve professional and social fulfilment, particularly to the most active and innovative segment of the population;
- SMEs manifest a high receptivity for the innovating phenomenon both as regards production, and also as regards the incorporation of inventions and innovations;
- SMEs are an important revenue source for the state budget (taxes, VAT, etc.);
- SMEs are the main vectors of knowledge-based economic development;
- SMEs are the basis of the future large companies, especially in new areas of economy, such as the most important domains of activity that rely on state-of-the-art technology.

The relationship between the development of SMEs and the business environment is bi-univocal. On the one hand, a stable and predictable business environment facilitates the manifestation of private initiative, the setting up of enterprises and, in consequence, the development of the SMEs sector. On the other hand, a strong SMEs sector is an important factor for economic and social balance, which intensifies market competition, increases the quality of products and services to satisfy demand and diversifies the offer. Thus, the premises of creating and reinforcing a stimulating and dynamic business environment - which is attractive to the local investors and the foreign ones - are ensured.

2. A brief examination of the SMEs sector in Romania

In the last few years, Romania has made several important steps as regards the creation of a stable and predictable business environment; however, there is still more to do: the configuration of a legislative and institutional framework that offers premises for a favourable manifestation of the entrepreneurial spirit. The efforts that have been made so far must be continued because the existence of a stimulating and dynamic business environment, which is attractive to investors, and the development of SMEs, are fundamental premises that ensure a sustainable development for Romania, which must comply with the Europe 2020 Strategy.

Thus, according to the data comprised in the “White Charter of Romanian SMEs”, 2013 edition, 43.38% of the Romanian enterprisers appreciate that the present economic environment is unfavourable to the business development, while 41.28% of them perceive it as neutral and only 15.34% of the interviewed respondents appreciate that the economic environment is favourable to the development of businesses (see Figure 1)³.

³ The National Council of Private SMEs in Romania, The Ministry of Economy (Department for SMEs, Business and Tourism Environment), *White Charter of Romanian SMEs*, Bucharest: Sigma Publishing House, 2013.

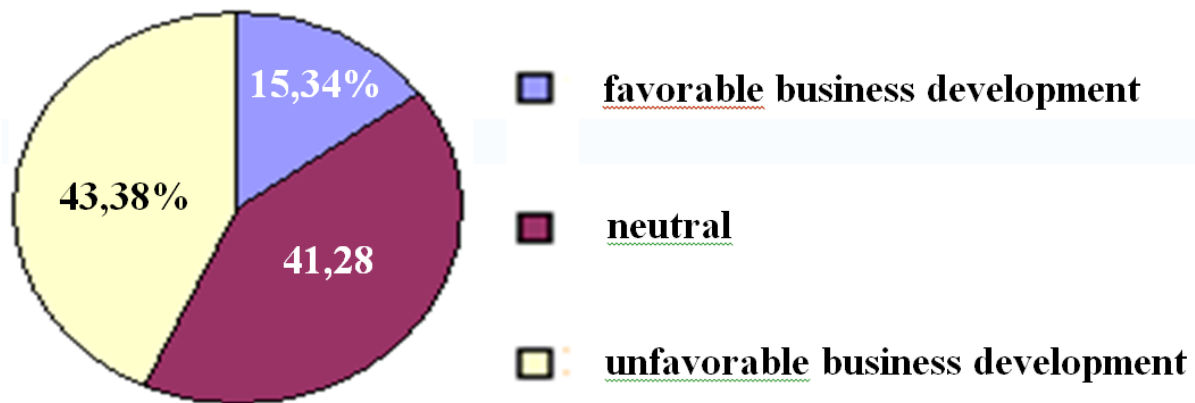


Figure 1. Perception of Romanian entrepreneurs as to the present economic environment⁴

In 2012, the economic environment was perceived as unfavourable by 54.45% of entrepreneurs, while 33.75% of them considered that it was neutral and 11.8% of the entrepreneurs perceived the economic environment as favourable to the development of businesses (see Figure 2). The main conclusion that can be drawn after a comparative analysis between 2012 and 2013 is that of a slight improvement in the Romanian entrepreneurs' perception as to the situation of the business environment. However, we point out the high percentage (43.38%) of entrepreneurs who consider that the economic environment in Romania is not favourable to the development of businesses.

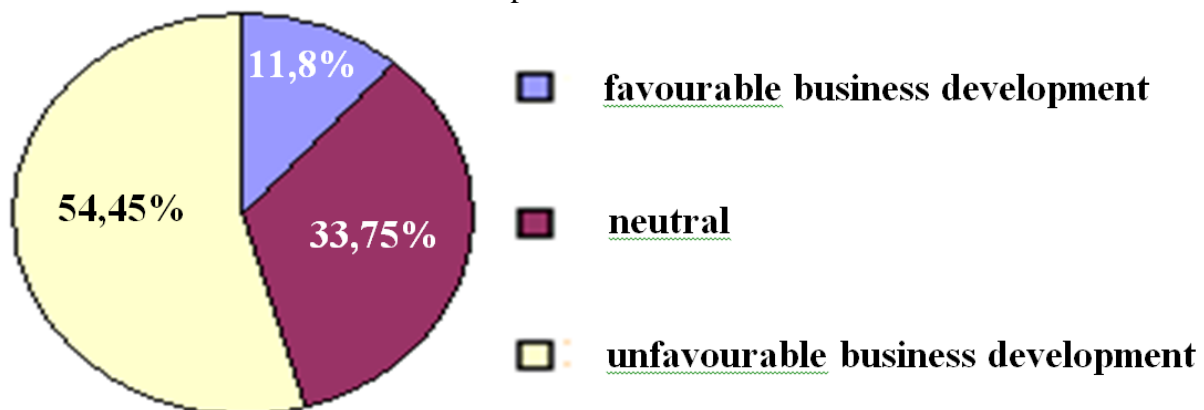


Figure 2. Perception of Romanian entrepreneurs as to the economic environment in 2012⁵

As to the share of the SMEs within the microeconomic sector of Romania, one can identify a sort of stability in the last few years (see Table 1). This share maintains itself at 99.6%, because in 2011, in comparison with 2010, a slight improvement was recorded both with SMEs (437,042 companies in 2011, in comparison with 436,508 companies in 2010), and with large companies (1,588 companies in 2011, in comparison with 1,527 companies in 2010). If we consider that in 2008, before the onset of the economic crisis, there were 498,200 economically active firms, we can state that a short-term objective could be to re-reach the level of 2008 as regards the number of companies.

⁴ Adapted after The National Council of Private SMEs in Romania, The Ministry of Economy (Department for SMEs, Business and Tourism Environment), *White Charter of Romanian SMEs*, Bucharest: Sigma Publishing House, 2013.

⁵ Adapted after the National Council of Private SMEs in Romania, The Ministry of Economy (Department for SMEs, Business and Tourism Environment), *White Charter of Romanian SMEs*, Bucharest: Sigma Publishing House, 2013.

The number of economically active SMEs in 2010-2011⁶**Table 1**

Year	SMEs	Large enterprises	Total number of enterprises	Share of SMEs
2010	436,508	1527	438,035	99.6%
2011	437,042	1588	438,630	99.6%

The demographic evolution of SMEs is, on the one hand, illustrated by the total number of incorporated companies, and, respectively, by the number of companies that were subjected to suspension, dissolution and deregistration, on the other hand⁷.

In 2008, 144,239 companies were incorporated, while the total number of companies that were subjected to dissolution, suspension and deregistration amounted at 33,457 firms. In other words, for 4 companies that were incorporated in 2008, only one ceased its activity. In 2009 and 2010, the number of dissolutions, suspensions and deregistration cases was double in comparison with the number of the incorporated companies due to the economic crisis. The situation improved in 2011 and 2012, when the relation between the number of incorporated companies and the number of companies that ceased to perform their activity was around 1 (in 2012 a number of 125,603 companies were incorporated and a number of 118,324 companies ceased to pursue their activity).

The total number of companies which were subjected to incorporation, suspension, dissolution and deregistration for 2008-2012⁸**Table 2**

Year	2008	2009	2010	2011	2012
Incorporations	144,239	111,832	119,048	132,069	125,603
Suspensions	12,019	134,441	66,428	21,086	24,078
Dissolutions	3,762	30,105	8,191	11,660	22,500
Deregistration cases	17,676	43,713	171,146	73,244	71,746
I / SDR	4.31	0.54	0.48	1.25	1.06

The strategic indicator that points out the development stage for SMEs in an economy is their density, respectively the number of active SMEs calculated in proportion to 1,000 inhabitants. This indicator provides essential information as to the efficiency of the governing policies which are meant to encourage and assist SMEs and, at the same time, it reflects the sectorial and regional trends⁹. At present, in Romania, SMEs density amounts at 23 firms/1,000 inhabitants, representing 56% of the EU average, i.e. 41 firms/1,000 inhabitants.

⁶ Post – Privatization Foundation, Raportul privind sectorul IMM din România. Ediția 2013, Bucharest, 2013.

⁷ Idem.

⁸ Post – Privatization Foundation, Raportul privind sectorul IMM din România. Ediția 2013, Bucharest, 2013.

⁹ Dinu, M., Economia României. Întreprinderile mici și mijlocii. Cu ce ne integrăm?, Bucharest: Economică Publishing House, 2002.

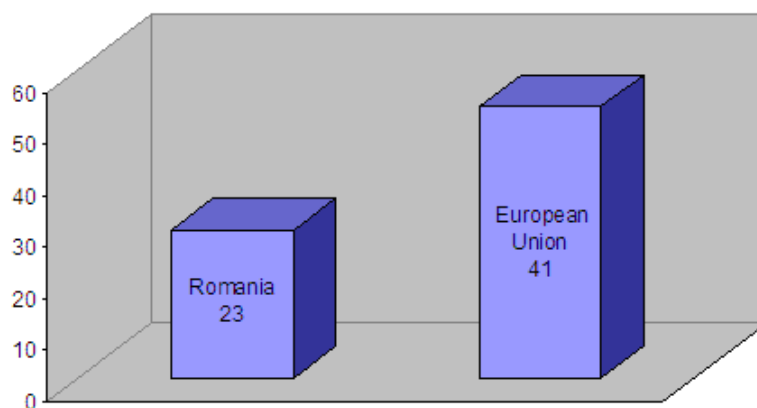


Figure 3. Density of SMEs in Romania in relation to the EU average

Analysing the density of SMEs territorially (see Table 3), one can notice that the region of Bucharest-Ilfov occupies the first position in the hierarchy, with a density of 50.23 firms/1,000 inhabitants, followed by the North-West region with a density of 24.35 firms/1,000 inhabitants and by the Central region whose density is of 23.54 firms/1,000 inhabitants. The last positions are occupied by the regions of South-Muntenia and North-East, in which the density of SMEs is of 16.10 firms/1,000 inhabitants and, respectively, 15.12 firms/1,000 inhabitants. One can notice that the hierarchy of the 8 development regions, as regards the density of SMEs, remains stable in time; however, one can also identify a significant gap between the first region, Bucharest-Ilfov, and the regions of North-West, Centre and West, which occupy the next three positions. Similarly, one can spot a critical situation in the regions of South-Muntenia and North-East, where 32.27% of the total population of Romania lives, and which record the lowest density level for SMEs. The data comprised in Table no. 3 illustrate the major gaps existing between the eight development regions of Romania as to the entrepreneurial phenomenon.

Number and density of SMEs in the 8 development regions, 2011¹⁰

Table 3

Region	Number of SMEs	Regional share of SMEs	Number of inhabitants	Density (no. of SMEs / 1,000 inhabitants)
BUCHAREST-ILFOV	102,577	22.69%	2,042,226	50,23
NORTH-WEST	60,758	13.95%	2,495,247	24,35
CENTRE	53,002	12.31%	2,251,302	23,54
WEST	40,594	9.41%	1,730,146	23,46
SOUTH-EAST	51,694	11.94%	2,399,604	21,54
SOUTH-WEST OLTENIA	32,532	7.48%	1,977,986	16,45
SOUTH-MUNTENIA	48,273	11.17%	2,998,679	16,10
NORTH-EAST	47,612	11.05%	3,148,577	15,12
ROMANIA	437,042	100%	19,043,767	22,95

¹⁰ Post – Privatization Foundation, Raportul privind sectorul IMM din România. Ediția 2013, Bucharest, 2013.

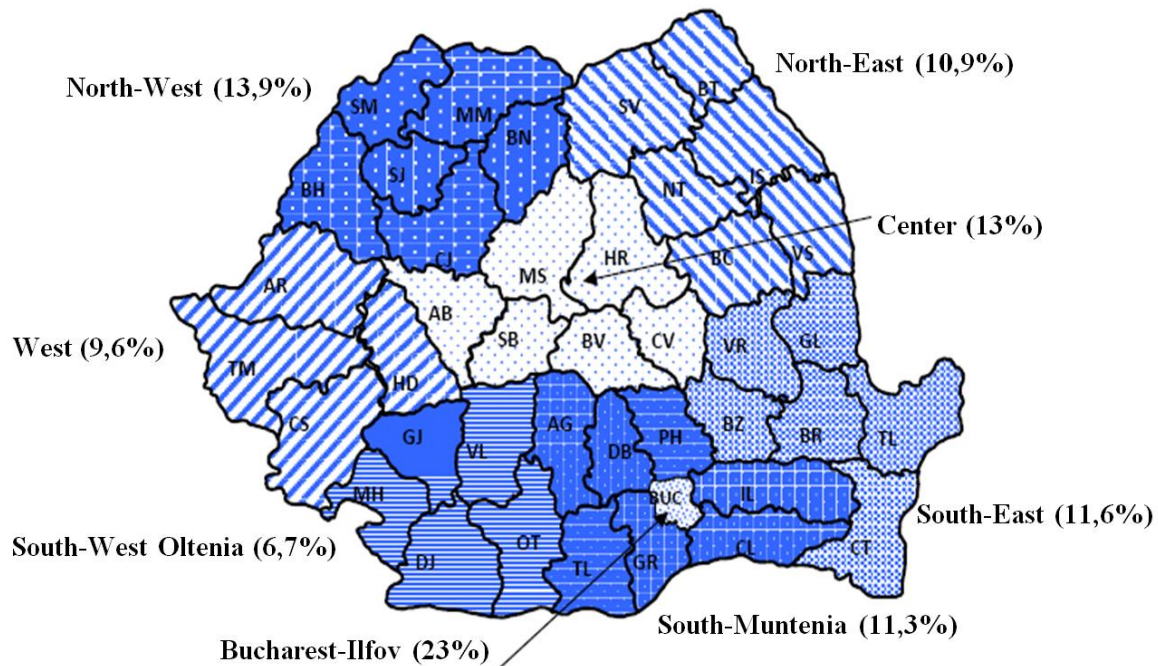


Figure 4. Regional distribution of the employees in SMEs¹¹

As to the distribution of employees who perform their activity in SMEs, illustrated per regions of development (see Figure 4), one can spot the first position in the hierarchy for the region of Bucharest-Ilfov with 23%. In fact, almost a quarter of the total number of employees in SMEs in Romania work in companies that are located in this region, which also occupied the first position also as to the SMEs density. Actually, there is a natural correspondence between the two indicators, the regions of North-West and Centre, which occupy the second and, respectively, the third positions as to the SMEs density, and as to the share of employees. The West Region, which occupies the fourth position as to the SMEs density, is the first before last in the hierarchy as to the share of employees, a situation which is not accidental if we consider that this region has the lowest number of inhabitants of all the 8 regions of development. A critical situation exists in the North-East region, which occupies the last position as regards the SMEs density and which records only 10.9% of the total number of employees working for SMEs, though this region has the largest number of inhabitants of all the existing ones.

3. Relevant comparisons with the European Union

The European Commission adopted in 2008 a document entitled “Small Business Act” for Europe, the first ample frame of policies for SMEs within the EU and the EU member states¹². The main goal of the “Small Business Act” for Europe is the adaptation of the general strategic approach to the entrepreneurial spirit in order to irreversibly impose the principle: “Think small first”.

In order to successfully implement “Small Business Act” for Europe, the Commission suggested concluding a political partnership between the European Union and member states, which must observe the principles of subsidiarity and proportionality. “Small Business Act” for Europe promotes a set of 10 principles which are meant to guide the conception and

¹¹ Idem.

¹² Commission of the European Communities, “A Small Business Act” for Europe, Brussels, 2008.

application of public policies within the area of SMEs both at European Union level and at the member states level. The 10 principles are as follows^{13 14}:

- Entrepreneurship;
- Second chance;
- Think small first;
- Responsive administration;
- State aid & public procurement;
- Access to finance;
- Single market;
- Skills and Innovation;
- Environment;
- Internationalization.

As one can notice in Figure no. 5, the first principle, “entrepreneurship”, is the only of the 10 principles where Romania exceeds the European Union average. The result is surprising if we consider that in Romania, the SMEs sector does not benefit from the support and assistance offered to the other member states. Moreover, as we have pointed out at the beginning of the second section of the present paper, only 15.34% of the Romanian entrepreneurs consider that the economic environment is favourable to the development of businesses. Consequently, one can state that in Romania there is a culture of the entrepreneurial spirit, a favourable attitude and a tendency towards the setting up of businesses and, at the same time, a tendency towards developing the existing companies, a fact which is an important premise for the consolidation of the SMEs sector for the next period.

¹³ Idem.

¹⁴ European Commission, Directorate-General for Enterprise and Industry, *2013 SBA Fact Sheet Romania*, Brussels, 2013.

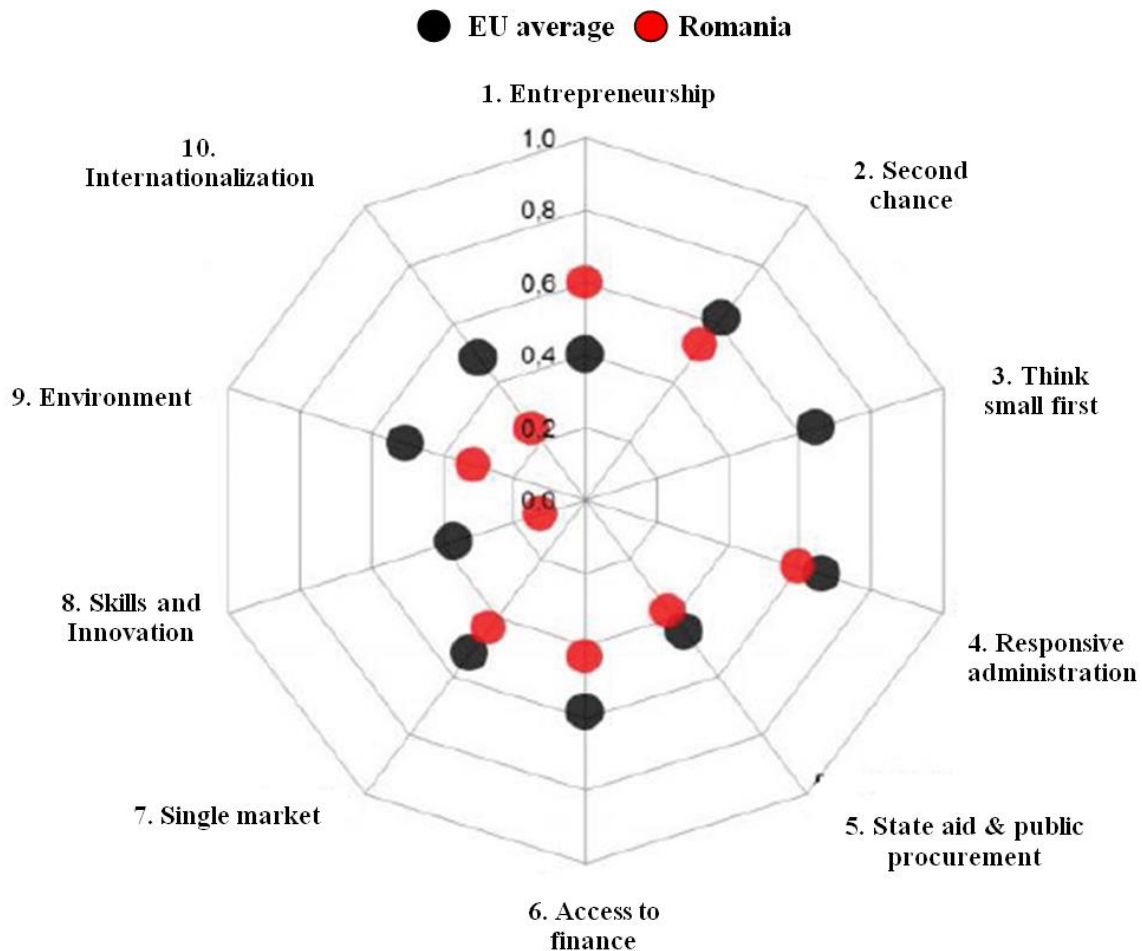


Figure 5. Principles of the “Small Business Act” for Europe. Comparison between Romania and the European Union¹⁵

The “entrepreneurship” principle takes into consideration 9 indicators, which are synthetically presented in Table 4.

Analysing the data comprised by Table 4, one can notice that Romania occupies a position which is higher than the EU average for 8 out of the 9 indicators that define the “entrepreneurship” principle, except for the “opportunity-driven entrepreneurship” criterion. Similarly, as regards the “Entrepreneurial intention” and “Preference for self-employed” indicators and “Share of adults who agree that school education helped them develop an entrepreneurial attitude” indicator, Romania occupies a significantly superior position in comparison with the average calculated for the entire European Union.

One should also emphasise the fact that mass-media is seriously involved in Romania in promoting the entrepreneurial spirit. In our opinion, this is an essential aspect because, in the contemporary knowledge-based society, mass-media plays a key-role in promoting notions, concepts, values and principles and, also, in shaping the behaviours and attitudes of the population.

¹⁵ European Commission, Directorate-General for Enterprise and Industry, *2013 SBA Fact Sheet Romania*, Brussels, 2013.

Indicators of the “entrepreneurship” principle. Comparison between Romania and the European Union¹⁶

Table 4

Indicators	Romania	EU average
Self-employment rate (% of total employment)	20	15
Entrepreneurship rate (% of adults who have started a business or are taking the steps to start one)	26	23
Entrepreneurial intention (% of adults who intend to start a business within 3 years)	27	13
Opportunity-driven entrepreneurship (% of entrepreneurs)	43	49
Preference for self-employed (% of adults who would prefer to be self- employed)	48	37
Feasibility of becoming self-employment (% of adults who think it is feasible to become self-employed)	31	30
Share of adults who agree that school education helped them develop an entrepreneurial attitude (%)	73	50
Share of adults who think that successful entrepreneurs receive a high status in the society (%)	74	69
Media attention for entrepreneurship (%)	55	50

We also remark the high percentage of adults who consider that the education obtained in school helped them develop an entrepreneurial spirit. The values recorded for this indicator (73 in Romania, in comparison with 50, which is the average within the European Union) should be an impulse and, at the same time, a supplementary motivational factor for the development of new curricula in schools, colleges and universities, with a view to stimulating the entrepreneurial spirit, principles and values in general.

4. Conclusions

The relationship between the development of SMEs and the business environment is bi-univocal. A stable and predictable business environment favours private initiative, the setting up of enterprises and, consequently, the development of the SMEs sector. At the same time, a strong sector for SMEs is an important factor which ensures a balance both economically and socially, while intensifying market competition, the enhancement of the quality of the offered products and services, as well as the diversification of the offer. Thus, the premises that are necessary for the creation and reinforcement of a stimulating and dynamic business environment, which is attractive both to the investors in our country and for the foreign ones, are ensured.

The strategic indicator which points out the level of development for SMEs in an economy is the density thereof, respectively the number of active SMEs in relation to 1,000 inhabitants. At present, in Romania, the SMEs density is of 23 companies/1,000 inhabitants, representing 56% of the average recorder at EU level, which is of 41 companies/1,000 inhabitants. In the regional analysis of the SMEs density, we have spotted the major gaps existing between the eight regions of development in Romania as regards the entrepreneurial phenomenon.

There is a correlation between the SMEs density from a territorial perspective and the distribution of SMEs employees per regions of development; thus, the regions of Bucharest-Ilfov, North-West and Centre occupy the first three positions in the hierarchy. The Region of

¹⁶ European Commission, Directorate-General for Enterprise and Industry, *2013 SBA Fact Sheet Romania*, Brussels, 2013.

West, situated on the fourth position as to the SMEs density, occupies the first before last position as to the share of employees, a fact which is not surprising if we consider that this region has the lowest number of inhabitants of all the 8 regions of development. A critical aspect refers to the North-East region, which is located on the last position as to the SMEs density, and which records 10.9% of the total number of SMEs employees even though this region has the largest number of inhabitants.

Romania occupies a higher position in relation to the other EU member states as to the “entrepreneurship” principle, which is one of the 10 principles promoted by “Small Business Act” for Europe, a framework-document adopted by the European Commission in 2008. Thus, in Romanian, there is a culture of the entrepreneurial spirit, a favourable attitude and a tendency towards setting up businesses and, at the same time, a tendency towards developing the existing ones, a fact which is an important premise for the reinforcement of the SMEs sector for the next period.

As regards the indicators of “Entrepreneurial intention”, “Preference for self-employed” and “Share of adults who agree that school education helped them develop an entrepreneurial attitude”, Romania is one step before the average recorded at the level of the European Union. We appreciate the implication of mass-media in promoting the entrepreneurial spirit, which is an essential aspect for our contemporary knowledge-based society because mass media plays a key-role in promoting notions, concepts, principles and values, as well as in shaping behaviours and attitudes for the population.

In the last few years, Romania has made important steps in creating a stable and predictable business environment, which favours the development of the SMEs sector. The efforts that Romania has made up so far must be continued because the existence of a stimulating and dynamic business environment, which is attractive to investors, together with the development of SMEs, are fundamental premises for ensuring that Romania is on the right path in reaching a sustainable development level that complies with the provisions stipulated by Europe 2020 Strategy.

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