

SMALL AND MEDIUM ENTERPRISES (SMES) – DETERMINANTS FOR INTELLIGENT GROWTH AND SUSTAINABLE DEVELOPMENT OF LOCAL COMMUNITIES

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“Smart, sustainable, inclusive growth is the key to job-creation and the future prosperity of Europe”.

Jose Manuel Barroso

Abstract

The EU Cohesion Policy faced many challenges over the last five years, especially because of the long-term consequences of economic crisis. The recession generated regional and intra-regional disparities within European Union and undoubtedly created economic and social contrasts between member states. In order to remedy this situation, European Union reformed its Cohesion Policy for the next period of time, 2014-2020, focusing on fewer key priorities mainly on investments in local growth, capabilities, local economic potential and support for small and medium-sized enterprises.

The present paper presents the impact of economic crisis on European SMEs and, in particular, on the Romanian SMEs decline. The article also highlights the Romanian SMEs perspectives in terms of financial support that will be provided by the European Reformed Cohesion Policy for the next six years to come in order to build sustainable local communities.

Keywords: *capabilities, growth, investments, potential, support, small and medium-sized enterprises, local communities.*

1. Introduction

The European Commission had significantly increased the SME financial support through 2007-2013 operational programmes. Furthermore, in March 2008, European Council expressed strong support for an initiative to further strengthen SMEs' sustainable growth and competitiveness, named the “*Small Business Act*” (SBA) for Europe that was rapidly adopted.

The “*Small Business Act*” aimed to improve the overall policy approach to entrepreneurship, to irreversibly anchor the “Think Small First” principle in policymaking from regulation to public service, and to promote SMEs' growth by helping them tackle the remaining problems which hamper their development. This initiative also set 10 principles to guide the conception and implementation of policies both at EU and Member State level, namely:

- Create an environment in which entrepreneurs and family businesses can thrive and entrepreneurship is rewarded;

- Ensure that honest entrepreneurs who have faced bankruptcy quickly get a second chance;
- Design rules according to the “Think Small First” principle;
- Make public administrations responsive to SMEs' needs;
- Adapt public policy tools to SME needs: facilitate SMEs' participation in public procurement and better use State Aid possibilities for SMEs;
- Facilitate SMEs' access to finance and develop a legal and business environment supportive to timely payments in commercial transactions;
- Help SMEs to benefit more from the opportunities offered by the Single Market;
- Promote the upgrading of skills in SMEs and all forms of innovation;
- Enable SMEs to turn environmental challenges into opportunities;
- Encourage and support SMEs to benefit from the growth of markets¹.

After five years of insecure economic environment, the statistics say that the European SMEs

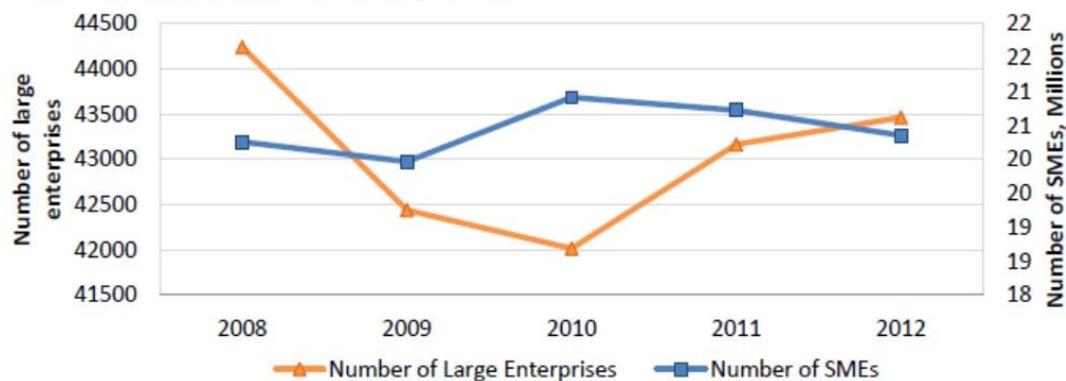
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¹ COM(2008) 394 final - Communication from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions: “*Think Small First*” A “*Small Business Act*” for Europe, Brussels, the 25th of June 2008. European Commission, Enterprise and Industry, 2013 SBA Fact Sheet, Romania. The Small Business Act (SBA) Fact Sheets are produced by DG Enterprise as part of the SME Performance Review (SPR), which is its main vehicle for economic analysis of SME issues. They combine the latest available statistical and policy information for the 28 EU Member States and nine non-EU countries which also contribute to the EU's Competitiveness and Innovation Framework Programme (CIP). Produced annually, the Fact Sheets help to organise the available information to facilitate SME policy assessments and monitor SBA implementation. They take stock and record progress. They are not an assessment of Member States' policies but should be regarded as an additional source of information designed to improve evidence-based policy-making. For example, the Fact Sheets cite only those policy measures deemed relevant by local SME policy experts. They do not, and cannot, reflect all measures taken by the government over the reference period. More policy information can be found on a database accessible from the SPR website.

resisted the crisis better than large enterprises². Member states implemented SBA and adopted policies to avoid financial market collapse. But all these policies couldn't assure growth, competitiveness and maintaining control of public spending. 2012 was the year that registered a loss of 610,000 jobs at EU level and SMEs contribution to the GDP diminished from €3.44 trillion that was collected in 2011 to €3.39 trillion in 2012. Annual Report on European SMEs 2012/2013 (based on Eurostat Statistics) provides an overview of the position of SMEs in the European economy between 2008 – 2013 (and a trend analyze for each SME size), in terms of business demography, employment and added value and reflects through its statistics the decline and low performance of SMEs.

2. The dynamics of business demography 2008 - 2012³.

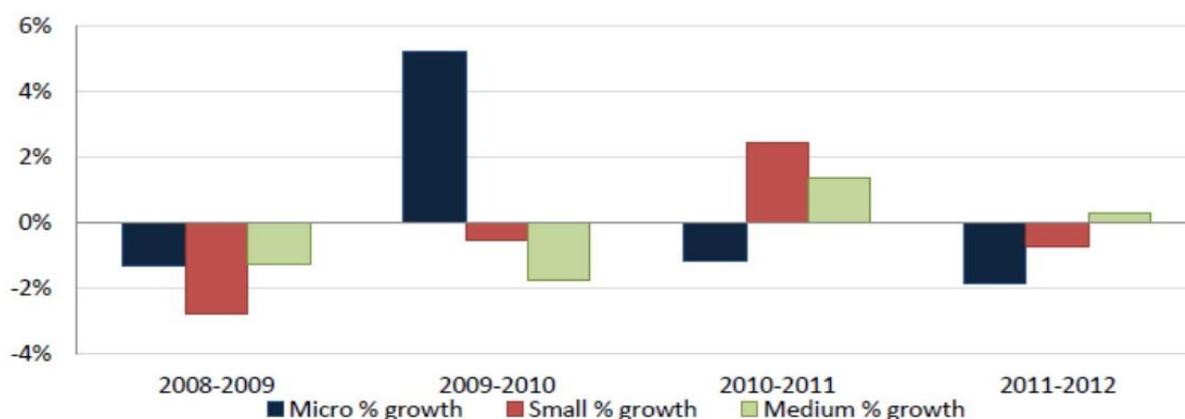
Between 2009 and 2010 the number of SMEs reached almost 21 million firms and from 2010 till



Note: Number of Large Firms: Left Axis; Number of SMEs in million: Right Axis

Source: Eurostat, National Statistical Offices, DIW, DIW econ, London Economics

Trend analyze for each SME size



Source: Eurostat, National Statistical Offices, DIW, DIW econ, London Economics

2012 the total number of SMEs decreased, returning to the levels of 2008.

The number of micro-enterprises underwent large fluctuations. Between 2009 and 2010, the

number of micro-firms increased with a net growth of almost 1 million units. In 2011, however, their number reduced by more than 200,000. The negative trend continued throughout 2012 albeit at a lower rate. In 2012, the number of micro-enterprises was just 120,000 units above the 2008 level.

The number of small firms was negative. Despite a 2.4% growth in 2010-2011, of the 1.37 million small companies that existed in 2008, there remained only 1.35 million in 2012.

The trend in the number of medium firms was negative until 2010. Although it is acknowledged that a number of large enterprises crossed over to the SME size-class, between 2008 and 2010, the sector lost approximately 6,000 firms (with their number reducing by almost 3%). Slight growth was recorded in 2012, which brought the number of medium sized firms to a total of 220,000

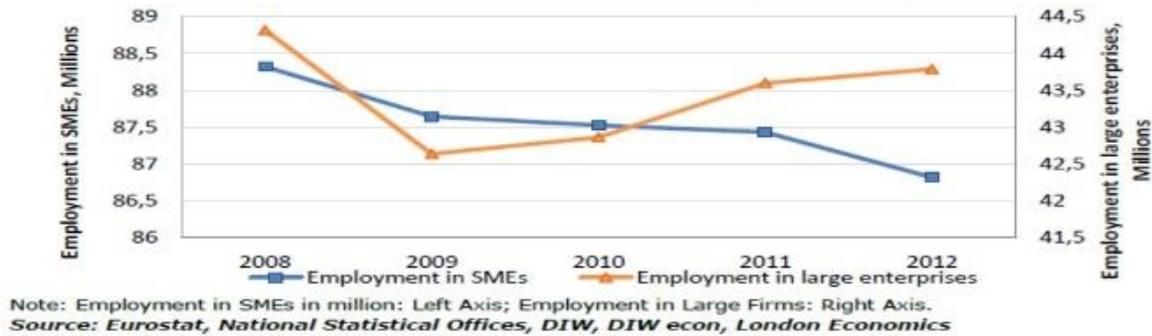
² European Commission, *A recovery on the Horizon? - Annual Report on European SMEs 2012/2013*, October 2013

³ Ibidem

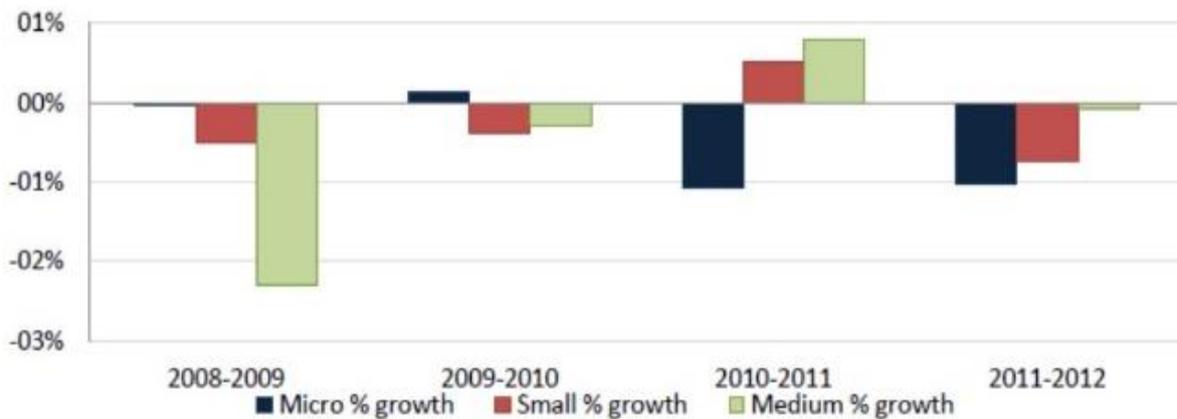
Employment dynamics 2008 - 2012⁴. 2009 was a very difficult year for the European SMEs because there were registered 677. 000 job losses.

enterprises lost 202,600 jobs bringing the count to more than 300,000 jobs lost between 2008 and 2012.

The major source of job losses in 2009 was in



Trend analyze for each SME size

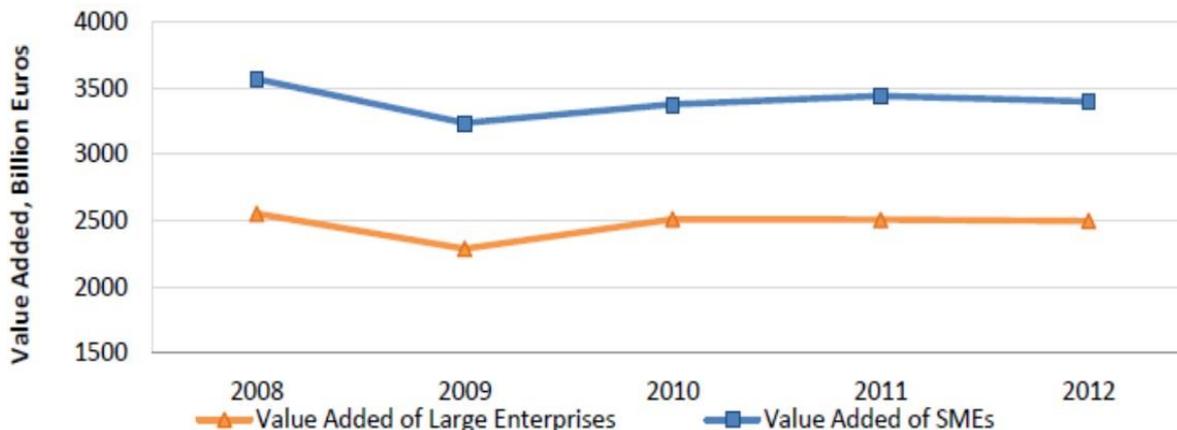


Micro-enterprises performed well between 2008 and 2010, but they showed a negative trend in 2011 and 2012. In 2012, micro-enterprises lost 387,250 jobs. Between 2008 and 2012 the total loss of employment was of 757,400 jobs.

medium sized enterprises, which lost over 530,000 jobs. Medium sized enterprises reversed this trend in the following year. In 2012, medium sized enterprises took a further hit registering a loss of 20,000 jobs. In that year they employed 438,500 fewer people than in 2008.

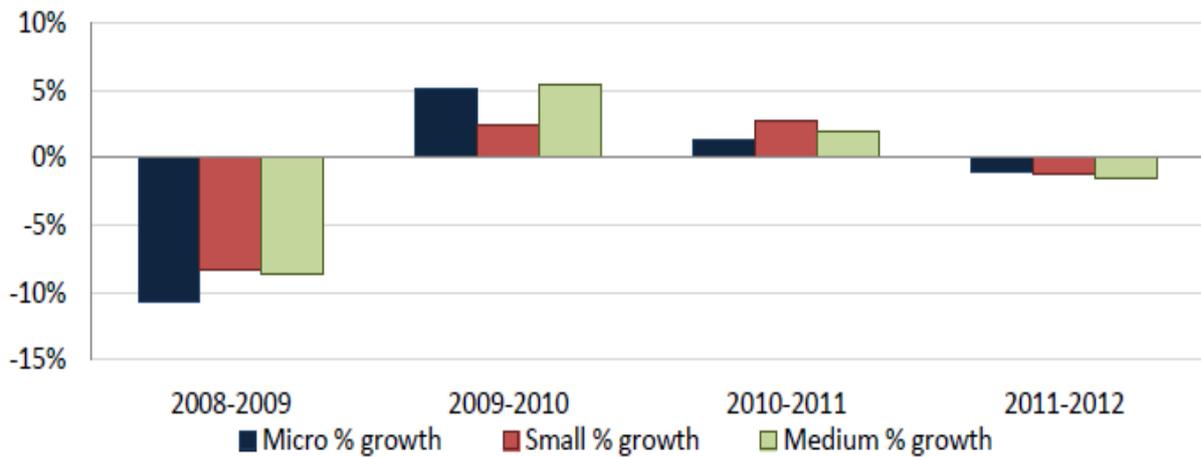
The trend for small enterprises was negative. Enterprises employing between 10 and 49 people performed very poorly during the 5-year period of interest. The trend was negative. In 2012, small sized

Value added dynamics 2008-2012⁵
(The dynamics of value added was similar for SMEs and large enterprises)



Trend analyze for each SME size

⁴ Ibidem
⁵ Ibidem



Source: Eurostat, National Statistical Offices, DIW, DIW econ, London Economics

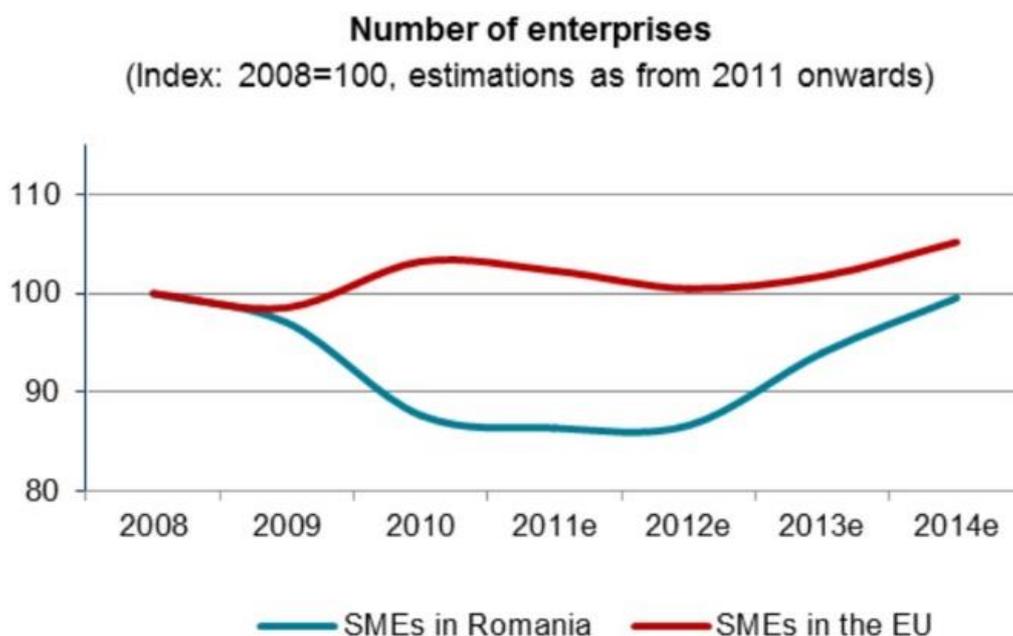
Micro-enterprises experienced the largest loss in 2009, losing €141 billion in value added. The following year, some of this loss was recouped but, at the end of 2012, the value added lost by micro-enterprises was €78 billion. In 2012 alone, micro-enterprises lost circa €14 billion in value added.

Small sized enterprises did not perform much better. In 2009, the value added of small firms reduced by €95 billion. Over the next two years, only a third of this loss was recouped and, in 2012, small companies recorded a further loss of €13.2 billion.

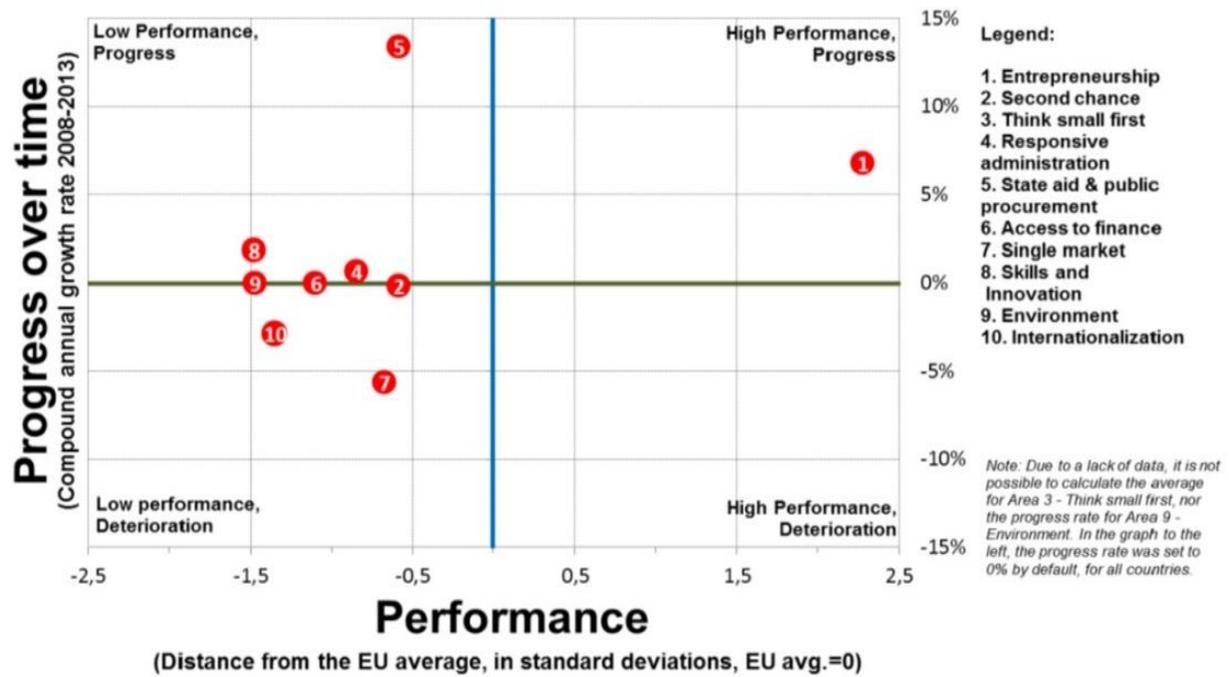
Medium sized enterprises experienced the same dynamics: in 2009, they lost €96 billion in value added; they partially recovered in 2010 - 2011 and lost again €16.9 billion in 2012.

3. SMEs in Romania

Analyzing Romania's economic situation for the last five years, DG Enterprise (under European Commission) considers that Romanian SMEs are below average and its SBA profile has changed little. "The country's performance is below par for seven out of nine SBA principles and is above average only for 'Entrepreneurship', albeit there by a large margin. In 2012, only a few new measures in the areas of the single market, state aid and public procurement, the environment and internationalization were actually introduced. Overall, it is acknowledged that the economic crisis and general instability have severely hampered progress on SME policies."



Romania's SBA performance: Status quo and development 2008-2013



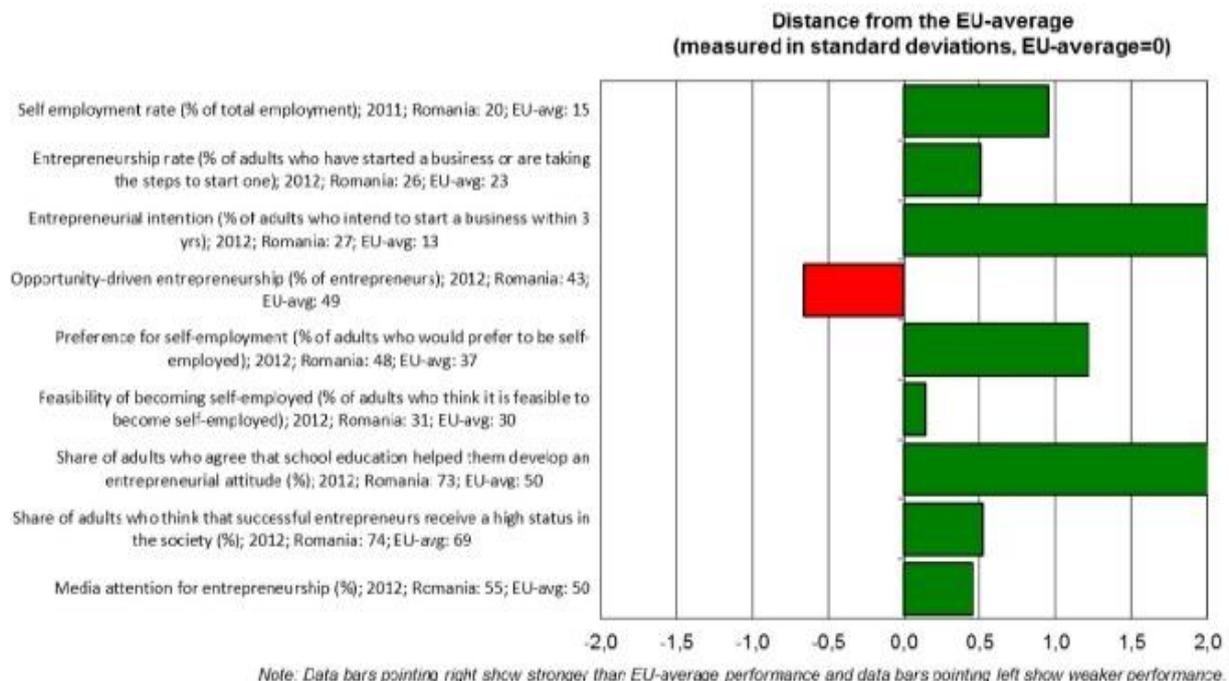
It is important to take a look over the implementation of SBA principles in Romania.

1. Entrepreneurship

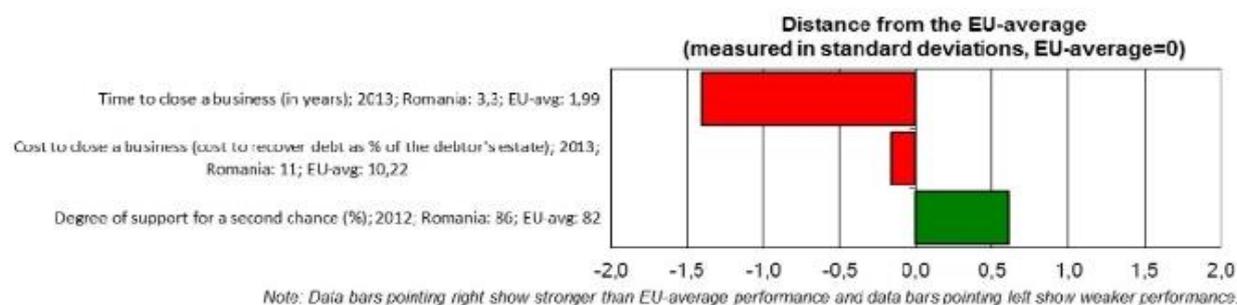
Entrepreneurship is by far the best performing SBA area for Romania. Entrepreneurial culture in Romania is widely seen as well established and entrepreneurs are willing to start their own businesses despite the numerous and relatively well-known obstacles and challenges they face.

2. Second chance

‘The indicators measuring ‘Second chance’ reveal a relatively unfavourable environment for re-starters. Honest entrepreneurs whose businesses have failed and who want to start again have to put up with longer times for closing a business (3.3 years in Romania compared with an EU average of 2 years), even though the corresponding cost (11% of the debtor’s estate) is similar to the EU average.

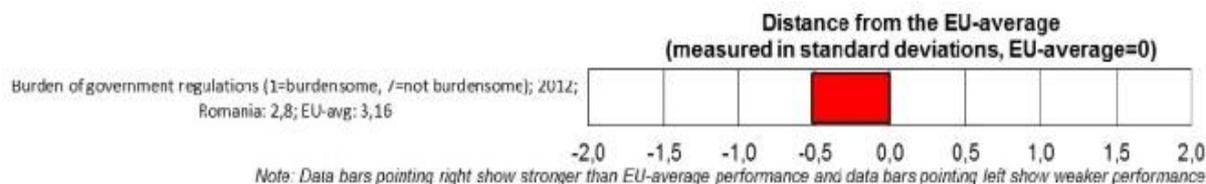


Note: Data bars pointing right show stronger than EU-average performance and data bars pointing left show weaker performance.



3. Think small first

Despite significant progress, reducing the



For 'Think small first', there is only one indicator available, which measures entrepreneurs' perception of the burden of government administrative requirements for permits and reporting. It is worse than the EU average. However, it is not possible to draw any general conclusions on this basis.

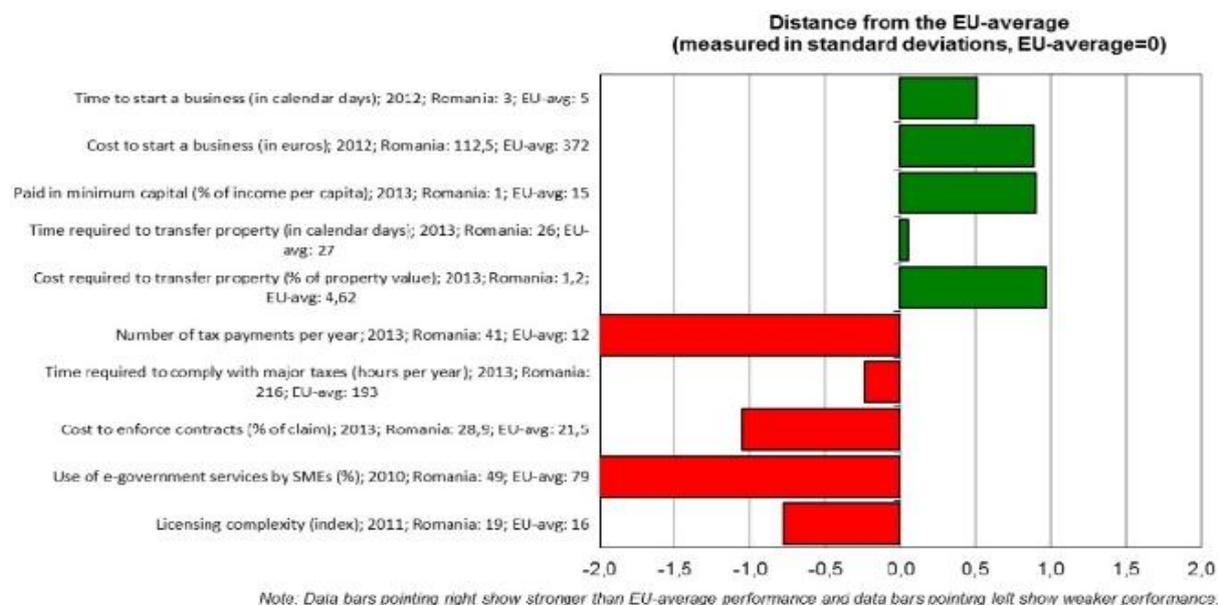
4. Responsive administration

Romania provides a less business-friendly environment for SMEs than the EU average, despite its

number of yearly tax payments from 66 to 41, the gap with the EU is still considerable, suggesting that further improvements are both possible and necessary.

5. State aid and public procurement

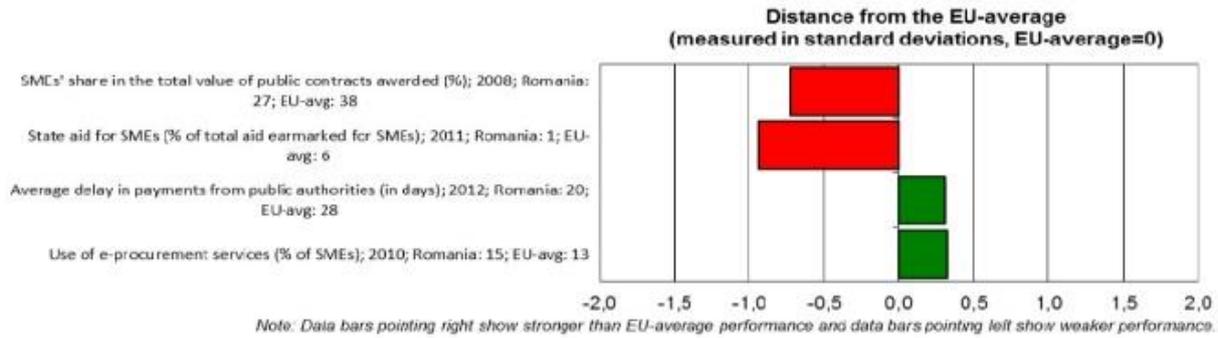
Romania scores slightly below the EU average on state aid and public procurement, but recorded the highest jump in the past five years. Romanian SMEs make better use of e-procurement services than their EU counterparts, and also seem to receive payment



comparatively good performance on start-up conditions and property registration and transfer procedures. In Romania, it is possible to start a business in three days at a cost of around €100-125, which is both faster and cheaper than the EU average.

quicker from public authorities. But the share of state aid earmarked for SMEs decreased to only 1 % in

2011, and SMEs' share of the value of public procurement contracts was still very low in 2008, at 27% compared with an EU average of 38%.



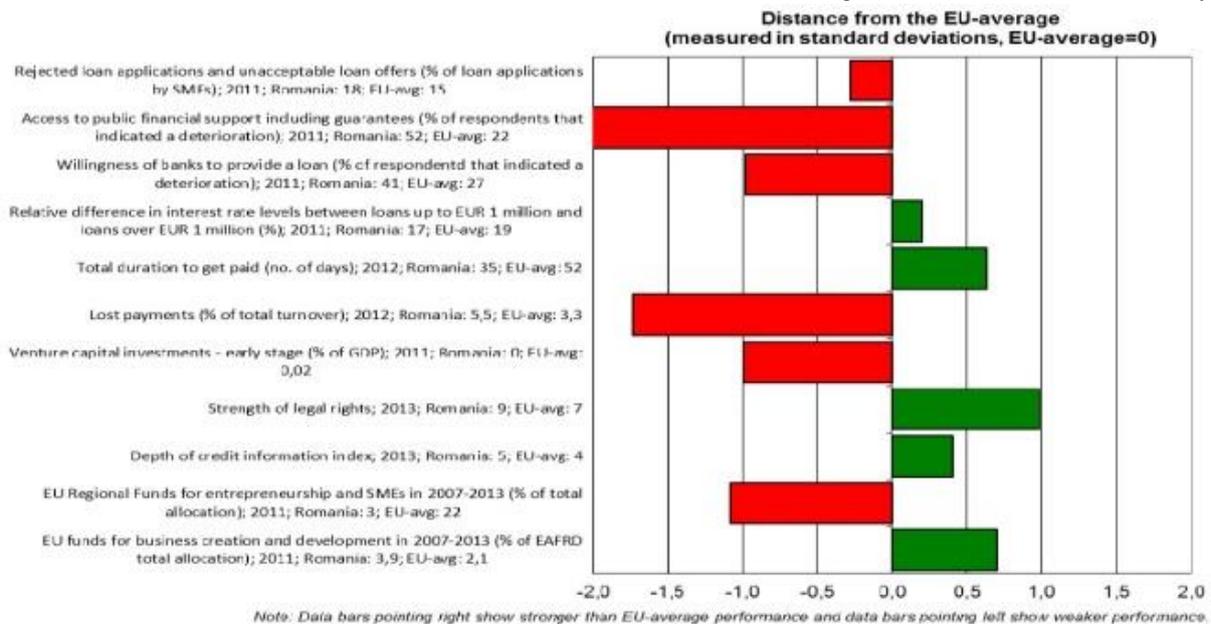
6. Access to finance

Access to finance remains difficult and costly for SMEs in Romania. The latest figures on loans date from 2011. The proportion of Romanian business owners who report a deterioration in banks' willingness to provide loans has remained stable at 41%, which is high and well above the EU average of 26%.

low competitiveness on the internal market and beyond.

8. Skills and innovation

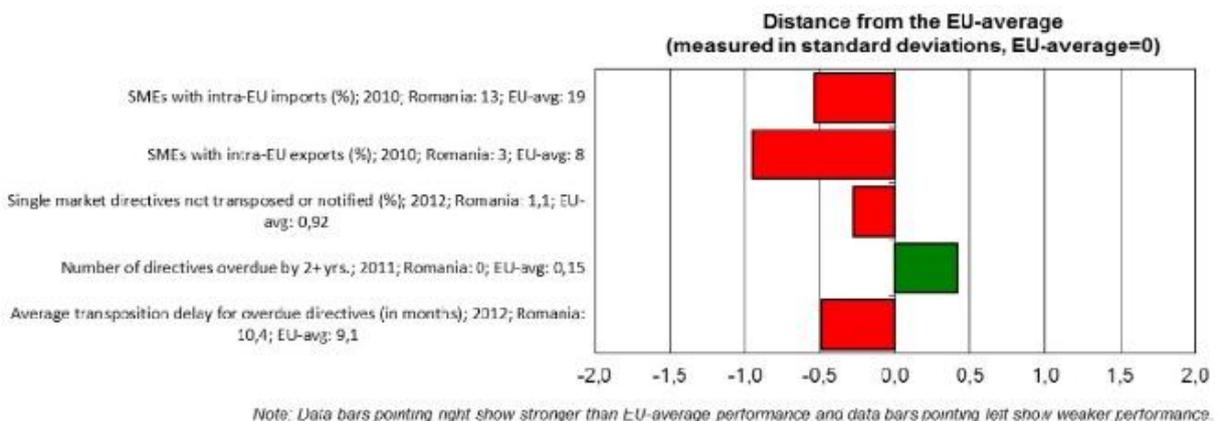
Romania lags far behind in this area, which covers both skills/training and innovation aspects. All but one of the core indicators relating to innovation are below the EU average. Romanian SMEs are less likely



7. Single market

Romania's score on single market issues is below the EU average and reflects Romanian firms'

to introduce innovation, to collaborate with each other or to innovate in-house. However, firms that do innovate are more successful than their EU peers in turning these new products and processes into sales



revenue. Apart from the innovation-related indicators, Romanian SMEs also perform below par in other aspects, such as IT-readiness, which is defined as ability to sell products and make purchases online. Also, Romania is not successful in attracting and retaining talent — e.g. R&D scientists and talented executives — and in providing them with competitive salaries.

Indicator	Year	Romania	EU-avg
SMEs introducing product or process innovations (% of SMEs)	2008	18	34
SMEs introducing marketing or organizational innovations (% of SMEs)	2008	26	39
SMEs innovating in-house (% of SMEs)	2008	17	30
Innovative SMEs collaborating with others (% of SMEs)	2008	2	11
Sales of new-to-market and new-to-firm innovations (% of turnover)	2008	15	13
SMEs participating in EU funded research (number per 100.000 SMEs)	2011	7	23
SMEs selling online (% of SMEs)	2012	5	13
SMEs purchasing online (% of SMEs)	2012	7	16
Enterprises providing training to their employees (% of all enterprises)	2010	3	24
Employees' participation rate in education and training (% of total no of employees in microfirms)	2010	3	11

Note: Data bars pointing right show stronger than EU-average performance and data bars pointing left show weaker performance.

9. Environment

Romania scores well below the average on this dimension, but its performance varies somewhat across the individual indicators. Romanian SMEs are much less likely to take steps to increase their resource-efficiency compared with the European average. This is partly because they do not receive public support for such measures to the same extent as their European peers. Similarly, only 17% of

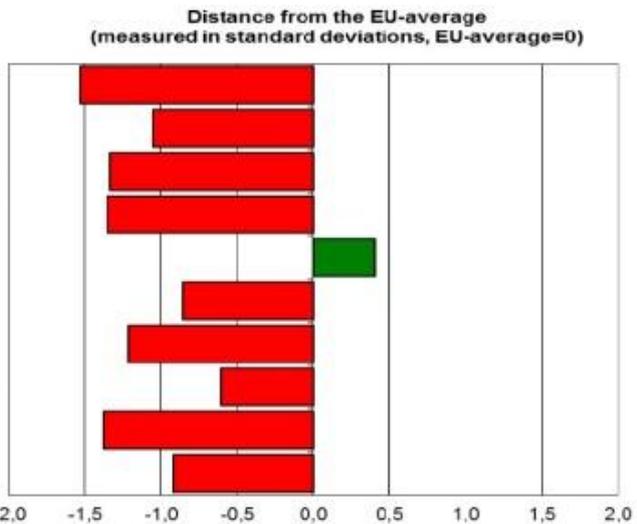
Indicator	Year	Romania	EU-avg
Innovations with environmental benefits	2008	0,04	0,04
SMEs that have taken resource-efficiency measures (%)	2012	75	93
SMEs that have benefited from public support measures for their resource-efficiency actions (%)	2012	3	9
SMEs that offer green products or services (%)	2012	17	26
SMEs with a turnover share of more than 50% generated by green products or services (%)	2012	25	22
SMEs that have benefited from public support measures for their production of green products (%)	2012	0	8

Note: Data bars pointing right show stronger than EU-average performance and data bars pointing left show weaker performance.

companies in Romania, compared with an EU average of 26%, have begun to exploit the opportunities offered by demand for green products and services, although those who have done so are more successful in generating a significant proportion of their revenues by selling these green products. Overall, the trend towards environment-friendly processes is felt in Romania, but is much weaker than in the rest of the world.

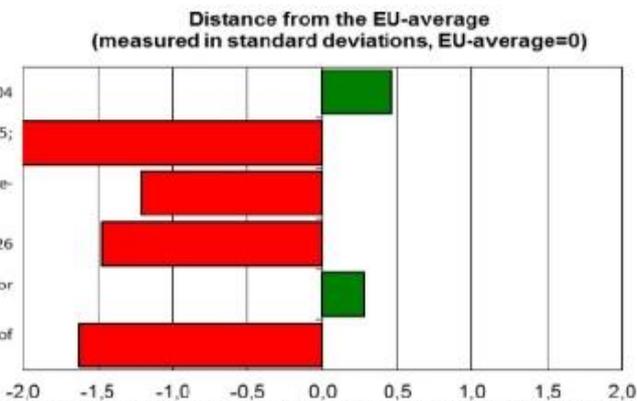
10. Internationalisation

Based on the available indicators measuring internationalisation, Romania is well behind the EU average. The general framework conditions for trading are — without exception — less favourable than in other EU countries, on average. It is therefore not surprising that the indicators reflecting the performance of Romanian companies in markets

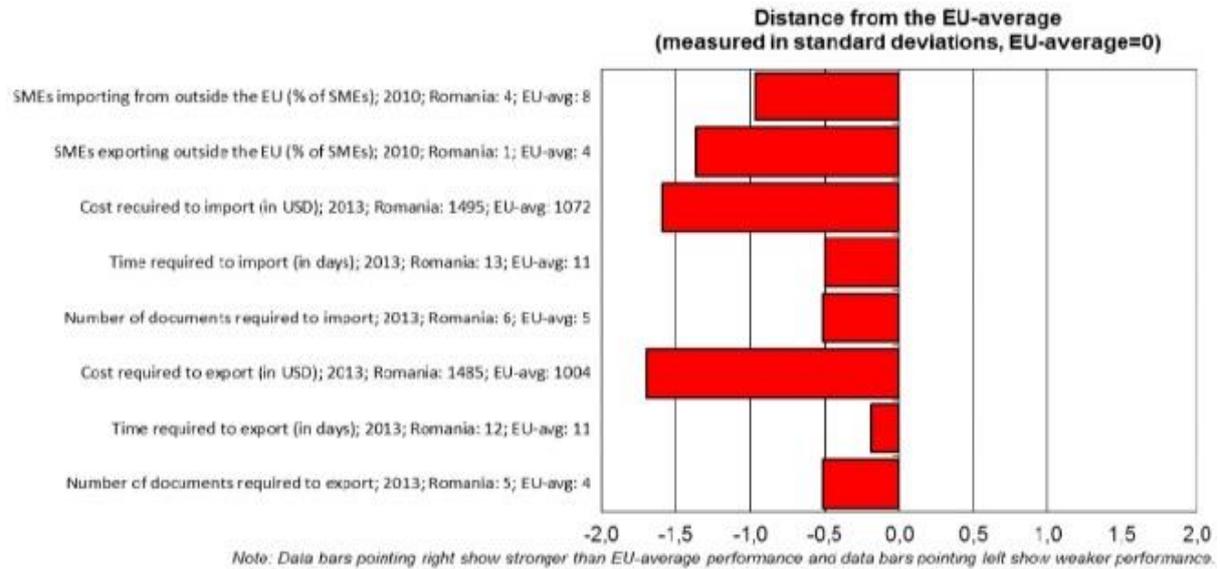


outside the EU remain modest.

As the Annual Report on European SMEs 2012/2013 noted *a further consequence of the crisis was that the distribution of losses in employment and value added was very unevenly distributed among the Member States*. Romania is one of that states in which SME performance in terms of value added and employment was negative.

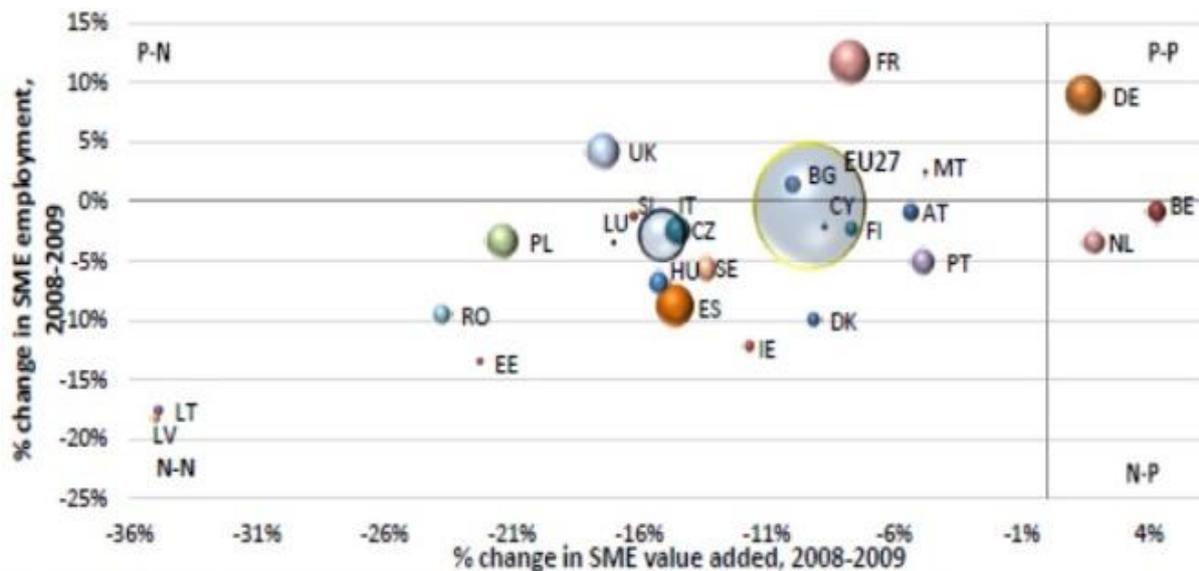


In 2013 European Commission issued for Romania among eight country specific recommendations one dedicated to improvement of SMEs economic performance. EC advised that the Romanian authorities should ensure a coherent e-government and undertake efforts to ease access to finance and to reduce the administrative burden on SMEs. Romania should also improve the efficiency and independence of the judiciary system and the



effectiveness of policies to prevent and combat corrupt practices, notably in the area of public procurement⁶.

development. The objective under the reformed Cohesion Policy will be to double the current support to around €140 billion for 2014-2020, partly through the increased use of financial instruments.



Source: Eurostat, National Statistical Offices, DIW, DIW econ, London Economics

4. What’s need to be done to reach Intelligent Growth and Sustainable Development in Romanian Communities. Future approach of European Cohesion Policy 2014 – 2020

Enhancing the competitiveness of small and medium-sized enterprises (SMEs) is one of the key priorities of European Cohesion Policy 2014 – 2020.

Cohesion Policy Funds⁷ will promote entrepreneurship and support SME’s growth by tackling the problems which hinder their

- This increased investment will help SMEs to:
- Access finance with grants, loans, loan guarantees, venture capital, etc.
 - Tap into business know-how and advice, information and networking opportunities including
 - cross-border partnerships.
 - Improve their access to global markets and mitigate entrepreneurial risk.
 - Exploit new sources of growth such as green economy, sustainable tourism, health & social services, including the “silver economy” and cultural and creative industries.

⁶ 2013 European Commission's recommendations for Romania in brief, http://ec.europa.eu/europe2020/europe-2020-in-your-country/romania/country-specific-recommendations/index_en.htm

⁷ EU COHESION POLICY 2014-2020, Targeting Investments on Key Growth Priorities,

- Train entrepreneurs, managers and workers to be adaptable to new challenges.
- Invest in human capital and in organisations providing practice-oriented vocational education and training.
- Forge valuable links with research centers and universities to promote innovation.
- New simplified and common rules and measures make it easier for SMEs to access Cohesion Policy Funds in 2014-2020. These include:
 - online reporting of how the Funds are used;
 - clearer eligibility rules;
 - more targeted and less frequent audits for small operations; and
 - wider scope and simplification of the set-up and access to financial instruments.

Romania, as member state and within The Small Business Act for Europe, should draw up a “strategic policy framework for inclusive start-ups” presenting a comprehensive vision of entrepreneurship support. It also should include actions to raise awareness and develop entrepreneurial skills, as well as measures to help start-ups to launch and access to finance, notably micro-finance.

5. Conclusions on revitalizing Romanian SMEs

In the present paper we tried to describe Romanian SMEs performance over the last five years based on the statistics offered by the European commission databases. We also wanted to raise the awareness of the importance of developing this sector and the fact that Romania must accelerate positive developments for SMEs, like a base for intelligent

sustainable development, by reducing unemployment and increasing common weal of local communities.

Although entrepreneurship chapter has a raising trend, our country must further on encourage entrepreneurship, private initiatives and improve business support infrastructure. Encouraging the development of microenterprises will have a positive impact on the local communities economy. Some governmental programmes to simplify administrative burden is necessary. In order to reach intelligent growth in local communities Romania must implement actions supporting entrepreneurship by reducing time needed for and the cost of registering new businesses, offering specialised (electronic) services to the business community, and new strategies and plans for better and accelerated development of SMEs and the business environment at substantially reduced cost (further promotion of The One-Stop Shop)⁸.

In the next period of time European funds are vital for our sustainable development and, of course, for SMEs. The access to equity is one of the most important obstacles for SMEs in seed and development phases. Private financial funds are particularly seen as difficult to access, while bank loans and guarantees, sometimes vital for business development, are too costly and lack flexibility⁹. This obstacle must be taken into consideration by the Romanian government and new measures to ease the access to investments funds must be adopted and implemented. Mistrust in financial institutions is a negative factor with dramatical consequences on local economies. Alongside mistrust, another negative factor that affects Romanian SMEs performance in the terms of absorption of european funds is the uncertainty linked to the extremely burdensome reporting process and the time taken to receive payment/reimbursement of structural funds.

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⁸ Ibidem

⁹ Ibidem

- 2013 European Commission's recommendations for Romania in brief, http://ec.europa.eu/europe2020/europe-2020-in-your-country/romania/country-specific-recommendations/index_en.htm;
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