

DEVELOPMENT OF THE ENABLING ENVIRONMENT FOR SMES – ESSENTIAL REQUIREMENT TO THE SUSTAINABLE ECONOMY

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ABSTRACT:

In the elaboration of this paper, the main objectives have been: to reveal the complex interdependence between the business environment – enabling, permissive and unfavorable – and the entrepreneurs, outlining the crucial role of the state as the major business environment component; to present the recent evaluations of the Romanian business environment by the entrepreneurs in 2012 and 2011, by the World Bank, and by EU bodies; to formulate a set of recommendations regarding the improvement of the Romanian business environment and SMEs development. All complex business and SMEs elements involved have been analysed in the context of the recent international and national evolutions generated by the economic crisis, projecting ways focused on the building an enabling business environment for SMEs in the next future.

KEYWORDS: *SMEs business environment, entrepreneur, manager, entrepreneurs perception, business opportunity, business difficulty, SMEs development*

JEL CLASSIFICATION: *L26, M48, H32, E 32*

1. THE BUSINESS ENVIRONMENT AND THE ENTREPRENEURS

In the last decades, business environment became a central field of analysis in numerous micro, macro, domestic and international studies, dealing with strategic elements of the economy, administration and society. There are different approaches of the business environment. In our research we have used the following definition of the business environment "Business environment represents all the exogenous organization elements – economic, administrative, managerial, technical and technologic, demographic, socio-cultural, scientific, ecologic, juridical and politic – which influence the organization established objectives, the resources used, the adopted and implemented managerial decisions and the companies performance" (Nicolescu and Verboncu, 2007; Nicolescu et al., 2011).

Without any doubt, business environment is very comprehensive and complex. It incorporates a large variety of components which are very dynamic, even "volatile". These are grouped in categories of factors. Among them, the administrative factors have a focal position. Central and local administrative bodies (see the figure no. 1) (Nicolescu and Verboncu, 2007; Nicolescu et al., 2011), by their strategic, tactical and daily decisions, by the human resource quality and their behavior and efficacy, by the administrative mechanisms, rules and procedures, determine to a large extend the functionality and the performance of the business environment.

Among their administrative state bodies and having a major impact on the characteristics of the business environment we could mention Government, Ministry of the Economy, and Ministry of

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Finance. Ministry of Labor, Parliament, counties councils, municipalities councils a.s.o. National, sectoral and territorial strategies and policies elaborated by them, yearly budgets, enacted laws and other regulations issued by them could favor or not the creation of the enterprises, their activities, potential and competitiveness (Nicolescu, 2007; Popa, 2005). This is one of the main reasons which explain why the most part of the specialists dealing with competitiveness of the economy and enterprises or with the living standard of the population pay a major attention to the administrative components of the business environment. Two of the major "diseases" of the business environment – bureaucracy and corruption – are the result of the interaction between the central and local administration and other components of the economy and society.

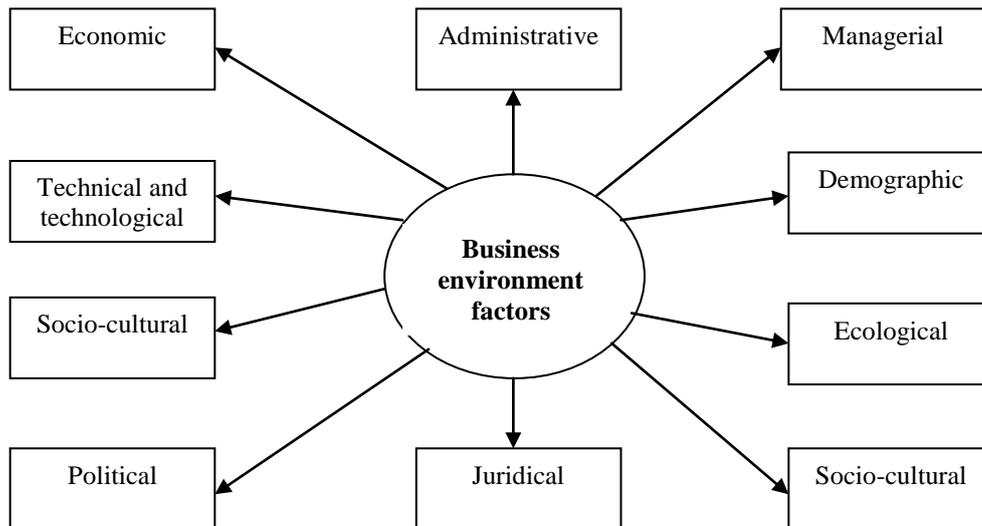


Figure 1. The main categories of business environment factors

One of the most important business environment characteristic is its capacity to facilitate the entrepreneurship and the companies' performance, which generate a major part of the economic richness in every country. According to the analysts in this field, taking into consideration this capacity, it is possible to have **three types of business environment**.

a) **Enabling or favorable environment** is characterized by national and regional juridical, institutional, fiscal, commercial, monetary, banking, social, technical conditions and parameters which determine the easy and low cost start, work and development of the competitive companies. The countries able to assure such a business environment have a high density of companies, generating competitiveness, many jobs and performant innovations. In the enabling business environment, state institutions have substantial contributions to generate and develop numerous contextual opportunities to the companies:

- job creation incentives
- R&D innovation stimulants
- stimulants for increasing of domestic demand
- low fiscality
- export stimulants
- grants for development
- weak corruption
- low bureaucracy

- easy business partnership a.s.o.

In developed countries, enabling business environment is predominantly almost all the times.

- b) **Permissive or neutral business environment** is characterized by certain contextual conditions for companies – juridical, institutional, fiscal, monetary, banking, social a.s.o. – which allow their creation, run and development, but to a large extent with substantial costs and facing notable difficulties. This type of business environment stimulates partially the companies' economic, technical, social and ecological performances and their development. The companies' density and economic potential are lower comparative with the enterprises working in an enabling environment. Permissive business environment is frequent in the developing countries.
- c) **Unfavorable business environment** is characterized by many juridical, institutional, fiscal, monetary, banking, commercial, social contextual conditions which make very difficult the start up, the run and the competitive performance of the companies. We could find the unfavorable environment very seldom and usually not for long time. The former communist countries, Romania included, are classical examples for such a type of business environment. Unfavorable environment contains many threats and difficulties for companies:
- excessive taxation
 - high rate of inflation
 - heavy bureaucracy
 - low level of internal demand
 - excessive administrative controls
 - powerful corruption
 - instability of the national currency
 - poor quality of infrastructure
 - unpaid invoices by state institutions a.s.o.

The most part of these are generated by the low quality of the central and local administration bodies' decisions, actions and behaviours (Verboncu et al., 2009).

So far, there are not scientific indicators to evaluate the characteristics of the business environment as a system. The main explanation of this situation is the predominance of the qualitative elements in the business environment very difficult and often impossible to be quantitative measured (Bâră, 2011).

The most used approach to evaluate the type of the business environment and its influence on the companies, national and local economy, are the empirical investigations based on interviews and questionnaires addressed to the entrepreneurs, managers, economic specialists, a.s.o. who work in the real economy and deal on a daily basis with different components of the business environment.

In fact, using this approach we obtain their perceptions about the business environment, its characteristics and impact on the economic and social performances.

For the companies start up, development and performance are very important – and often even determinant – **the entrepreneurs and managers perception of the business environment and its characteristics, including the perception of the decisions' quality and the capacity to solve problems by central and local administration bodies** (Borcoş, 2011; Nicolescu, 2011). When the entrepreneurs and managers consider or evaluate the business environment as unfavorable and they

believe that there are major difficulties and threats for the companies work and performance, then they decrease the frequency and the amplitude of the decisions, actions and behaviors focused on the investments, innovation, development, production increase, products and services sale, new jobs creation a.s.o. By contrary, when it is an enabling environment and the entrepreneurs and managers believes and perceive major contextual opportunities, then their decisions, actions and behaviors focused on the production increase, the product and services sale, investments, innovation, new markets penetration a.s.o. are frequent and involve more resources.

Very important are the **SMEs entrepreneurs and managers' perceptions because they represent 99% of companies in every country** and their capacity to solve business environment difficulties is lower comparative with large companies. SMEs performances and implicitly national economy competitiveness are conditioned to a large extent by the perceptions of their entrepreneurs and managers involved.

Business environment is determined by many elements: country traditions, population's culture and education, dimension and characteristics of the national territory, natural resources, geopolitical position, ideology of the leading political parties, state bodies' performance, economic and political international major events a.s.o. Each of the elements mentioned influences the business environment' evolution and parameters. The most part of the analysts consider that **the state has a determinant role in modeling the business environment** (Nicolescu et al., 2011).

Our analysis has identified **two categories of ways used by state bodies to influence business environment:**

a) **Direct approaches and ways projected and implemented by the state in order to develop a certain type of business environment and to attain planned economic objectives.** In this category we included mainly:

- national economy strategy
- state economic policies for the main branches (industry, agriculture, construction a.s.o.) and for the main fields (financial, R&D, international cooperation a.s.o.)
- quality of the economic and social laws and other juridical reglementations
- yearly central and local administration budgets
- infrastructure development
- public investments
- functionality of the central administrative bodies
- functionality of the local administrative bodies a.s.o.

It is the task of the government, parliament, ministries, national, regional and local agencies, counties and municipalities council a.s.o. to elaborate and implement these approaches and ways (Irimie & Maruca, 2010).

b) **Other state approaches and ways dealing with different components of the economy or society which indirectly influence semnificatively business environment.**

In this category we include the approaches and measures taken by the government, parliament a.s.o. regarding:

- education and training (Lloyd et al., 2009)
- science research and development
- social protection
- health care and medicines
- social partners and social dialog

- ecological standards and reglementations
- economic foreign state policy and actions a.s.o.

This category of ways is much larger comparing to the first one. We have just mentioned some of them which have a notable impact on the business environment. Usually, the impact is not direct on the business environment, but indirect through the results and effects generated in the specific fields involved – human resources, science, social protection a.s.o.

For each state the construction of an enabling business environment and its permanent improvement should be a priority.

2. ROMANIAN BUSINESS ENVIRONMENT AND SMES

In the last five years, business environment in Romania has have a very complex evolution (Lavric, 2010; Nicolescu et all., 2011a; Nicolescu et all., 2011b; Nicolescu et all., 2012a; Nicolescu et all., 2012b). Of course, the international economic crisis and the low state capacity to cope with its consequences, have influenced in many ways the SMEs. In figure no. 2 we present the dynamics of SMEs start-up and SMEs exits during 2008-2012.

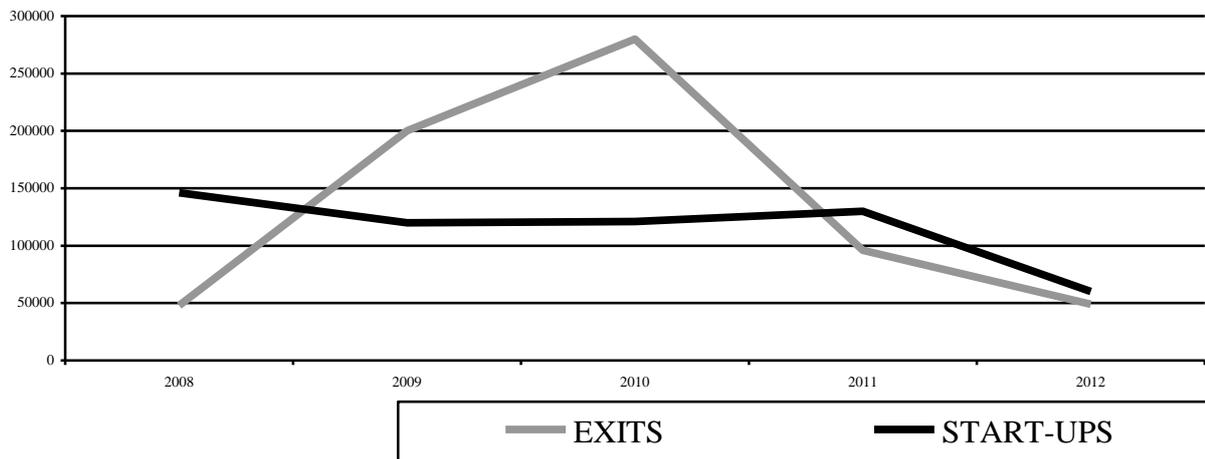


Figure 2. Dynamics of the SMEs start-ups and the SMEs exits in 2008-2012

In the end of 2011, in Romania has been 618,077 SMEs and 619,672 entrepreneurs in SMEs. According to the last figure, Romanian SMEs represent more than 99% of total companies (see figure no. 3).

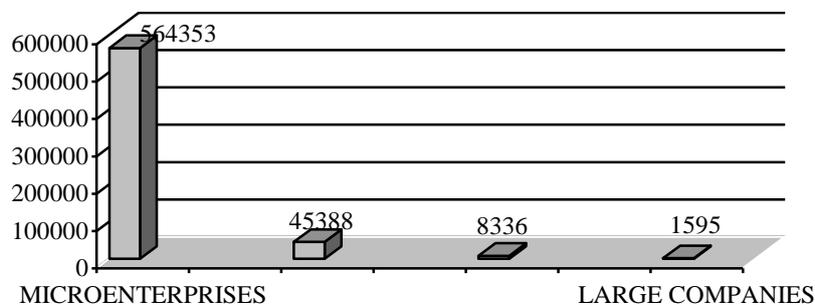


Figure 3. SMEs structure

The most part of the employees in economy work in the SMEs and not in large companies (see figure no. 4).

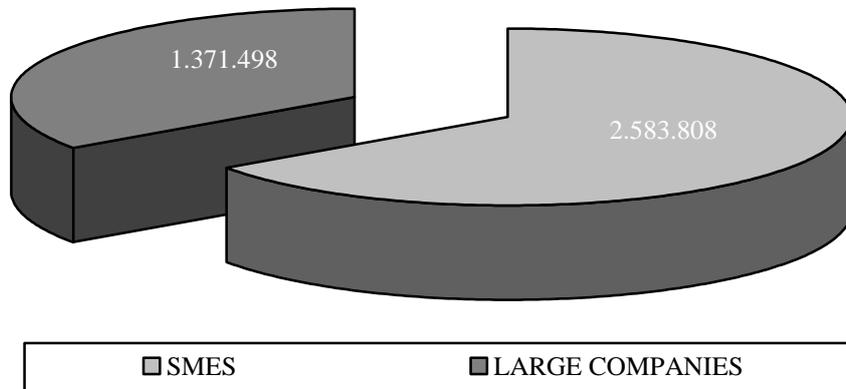


Figure 4. Employees in SMEs and large companies

In order to know what is perception of the business environment in Romania, National Council of Private Romanian SMEs (NCPRSME) achieved in every year, in the last 10 years a national investigation using the questionnaires (Nicolescu et al., 2011a; Nicolescu et al., 2012).

In the figure no. 5 we present the **opinion of the entrepreneurs on the business environment** in 2011 and 2012.

The conclusions is obvious: despite of the certain improvements in 2012, only one from ten entrepreneurs appreciated that in Romania the business environment is enabling.

A more recent evaluation of the business environment in Romania, focused on the first semester of 2012, indicate an alarming situation. **The entrepreneurial index in the first semester of 2012** (4,6 points) compared to the first semester of 2011 indicates an **unsatisfactory evolution** of the business environment and of the smes sector. We mention that in the first semester of 2011, the entrepreneurial index reached 19.7 points (Nicolescu et al., 2011a; Nicolescu et al., 2012b).

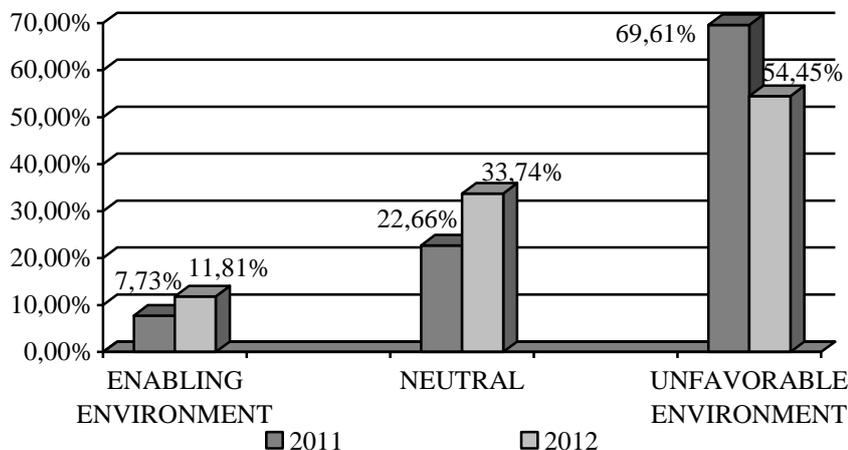


Figure 5. Romania's business environment general evolution in 2011 and 2012

In 2012, according to the World Bank, Romania hold the 56th position out of 183 countries regarding business environment, reflecting a decrease by 2 positions to the last year (see figure no. 6). It is an obvious convergence between the result of our research and the World Bank evaluation (World Bank Group, (2011); World Bank Group, 2012).



Figure 6. Changes in the rankings on the ease of doing business in 2010-2011
 Source: World Bank (2012)

The analysis of the **main business environment opportunities for SMEs in 2011 and 2012** (see figure no. 7) points out the following aspects: the most frequently opportunity has been indicated the **increase of sales on the internal market**, which shows that, despite difficult economic situation in Romania, entrepreneurs keep on staking on the power of purchase of both the population and of the local enterprises (Nicolescu et al., 2011b; Nicolescu et al., 2012a). The other significant opportunities, as pointed out in terms of SMEs are the **assimilation of new products, the entering on new markets, the accomplishment of a business partnership, the use of new technologies.**

The structure of the opportunities indicates the insufficient orientation of the Romanian economy and of the national strategies and policies to the international markets. The opportunity "the sale on the domestic market" is more than 10 times then the export opportunity.

The entrepreneurs and managers have indicated that in 2011 and 2012 (see figure no. 8) they faced the following most frequent environment difficulties: **the reduction of the internal demand, bureaucracy and excessive taxation.**

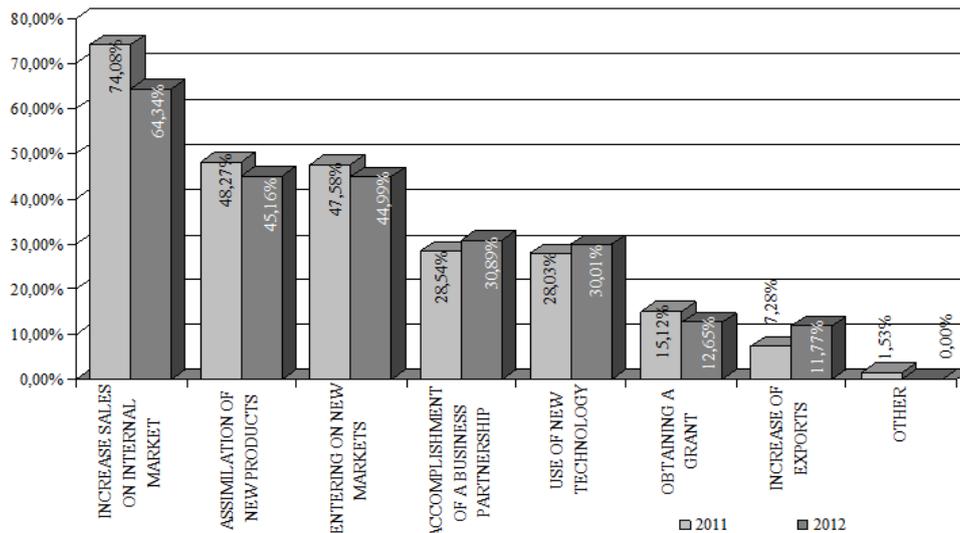


Figure no. 7 - Business opportunities in 2011 and 2012
 Source: White Charter of Romanian SMEs (CNIPMMR, 2012)

The structure of the business environment difficulties indicates the large contribution of the Romanian state to the "construction" of an unfavorable environment. **Five from the six biggest difficulties are generated directly by the state:** excessive taxation, high inflation, heavy bureaucracy, strong corruption and excessive control. Moreover, the toughest difficulty – the decrease of the internal demand - has been caused to a large extent by the massive diminution of the public sector employees' wages.

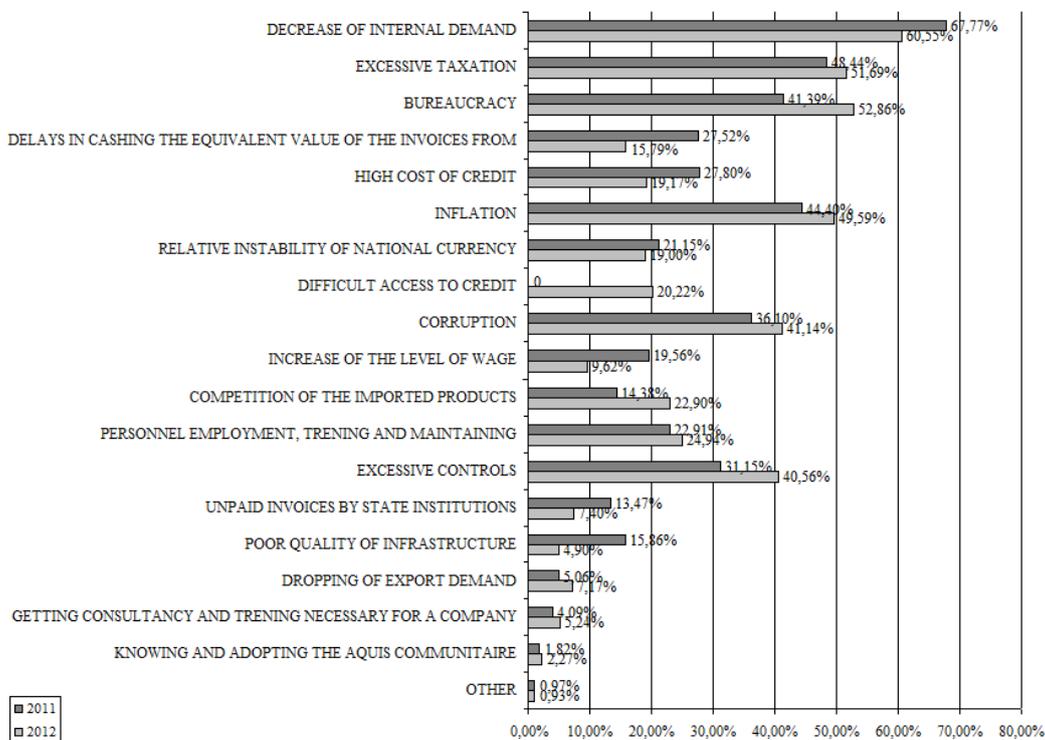


Figure 8. Major difficulties faced by SMES in 2011 and 2012
 Source: White Charter Of Romanian SMES (CNIPMMR, 2012)

Information presented regarding the Romanian business environment opportunities and difficulties explains the position of Romanian SMEs situation in comparison with EU average (see figure no. 9) (EU, 2011).

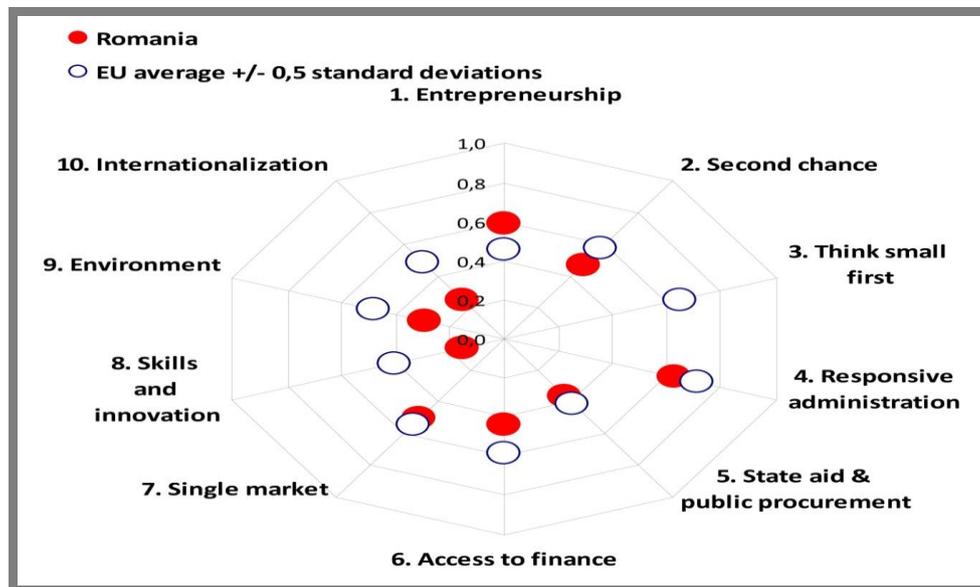


Figure 9. Romania's performance against the EU average by SBA area
Source: EU Commission (2011)

3. Recommendations regarding the improvement of the Romanian business environment and SMEs development.

Based on our research we have formulate two categories of improvements.

a. Recommendations for the development of the enabling environment in Romania.

- the elaboration of the Romanian Strategy EU post-accession, our country being the only one which has not such a strategy. This strategy should be correlated with EU 2010 Strategy
- the finalization of the administration reform, very well designed ten years ago, with EU assistance and "lost" on the way
- the transition to the "glissant" multi-yearly planning at national, regional and local level – inclusive for the public budgets – in order to avoid the "discontinuities" and "blockages" in administration and economy
- the elaboration and implementation of the strategies and policies at the national, regional and local levels, very necessary not only for administrative bodies and companies, but also for the correlation of the Romanian development with EU plans and budgets for 2014-2020
- the elaboration of the impact study for each new law, governmental economic decision a.s.o. in order to maximize economic and social effects and minimize the possible negative consequences. According to the EU Small Business Act, special impact analysis for the SMEs are mandatory in each EU contry for the every economic legislative and administrative reglementation
- the continue training of the central and local administration human resources, focused on real economic and social necessities

- the proper motivation and stability of the human resources in central and local administration
- the increase of the efficacy and responsibility of the human resources working in state bodies, based on the Ethic Code
- the re-launching of the social dialogue with social partners at all levels in order to increase the quality of the strategies, policies and administrative mechanisms and to improve social and economic climate
- the acceleration in Romania of best practices transfer from EU in administration, economy and other fields

b. Priorities for the Romanian SMEs development

We present 10 priorities and at each of them we shall indicate a few measures necessary to be decided by the Romanian Government and Parliament.

1. **Measures for creating an SME-friendly business environment:**
 - **Simplifying the administrative procedures and reducing by minimum 10% the non-fiscal taxation, authorizations, approvals, licenses and permits for business.**
 - **Creating a complete list** of non-fiscal taxes, authorizations, approvals, licenses and permits, and an **informational system**, as a basis for the administrative procedures simplification process.
 - **Widespreading the tacit authorization practice in the relationship between the state administration and entrepreneurs.**
 - Establishing the obligation of making and publishing a **comprehensive annual report on SMEs**, including both the governmental and the non-governmental point of views and perspectives.
2. **Passing a new Law for SMEs**, ensuring the full implementation at national level of the Small Business Act, the "Think Small First" principle and the gradual increase during the 2012-2020 period, from 0,4% of GDP up to 1% of the governmental funds allocated in order to support the development of SMEs, both at national and local levels.
3. **Increasing the amount of funds targeted for facilitating the creation of new start-ups and supporting the development of SMEs**, by allocating 300 millions Euros for financing the Start-up Program for the 2013-2015 period, generating 300,000 new jobs and a 4.26% GDP growth for the 2013-2015 period.
4. **Supporting investment recovery**, by amending and supplementing the Government Emergency ordinance no 85/2008 on stimulating investments, and also by **improving the legal framework for State Aid Schemes**, in order to make them more suitable for SMEs.
5. **Reducing the tax burden and improving the fiscality and fiscal procedure code:**
 - **VAT reduction from 24% down to 19%.**
 - **Diminuation the tax burden on labour by 5 percentage points**, or at least regulating the **payment of the social contribution for SMEs and NGOs** (including employers's organization and trade unions) **on quarterly basis.**
 - **Reducing by at least 25% the number of tax payments for business, in Romania this number is 4,4 times larger than the EU average** (European Commission Enterprise and Industry, SBA Fact Sheet – Romania 0 2010/2011).

6. **Improving the European structural funds absorption** through the strict compliance with the financial terms of the contracts, financing the expenditures initially from the state budget, afterwards being refunded by the European Commission, and granting the bank loans needed to cofinance the projects.
7. **Amplification of SMEs access to finance, by supporting the creation of a special bank for SMEs, allocating more money to National Guarantee Fund for SMEs and Romanian Contraguarantee Fund, special microfinance programs, and the implementation, according to the Eu practice, of the credit ombudsman for SMEs in every district** - the French model. The last measure will facilitate the achievement of the three main goals: increasing the lending to SMEs, offering financing advisory and notifying the central government in the case of major disfunctions.
8. **Improving the legal framework for public procurement, in order to increase the participation of SMEs in this field:**
 - **Passing special regulations for SMEs** which state: the obligation to subdivide contracts into smaller lots, in order to make them more accessible for SMEs; the reduction of the financial requirements for tender participation and the performance guarantees, in the case of SMEs; the simplification of the advance payments procedure; a.s.o.
 - **Urgent implementation of the obligation for the public authorities to pay for the goods and services that they procure within 30 days.**
9. **Supporting the distribution and commercialization of the SMEs' products:**
 - **Expanding the measures adopted by the law no. 321/2009 regarding the sale of food products, for all supplying SMEs**, in order to stimulate the domestic production and trade and the reduction of the imports.
 - **Creating - using the support of EU funds – the collecting networks for the distribution of traditional and domestic products supplied by SMEs, including small farmers and craftsmen.**
 - **Developing consultancy, information centers, networks, business support services and web portals for SMEs and supporting the cooperation among SMEs, research-development centers, universities, training organizations, financial institution and consultants.**
10. **Measures for the labour relations flexibilisation and supporting the employment**
 - **Continuing the labour market flexibilisation in Romania**, simultaneously with the promotion of **specific measures for job creation, employment of persons with disabilities people and labour productivity growth.**
 - **Practicing the same set of rights and payments for the private sector employees, as those applied for the state employees**, regarding the payments from the special social security budgets.
 - **Removing the practice of debt cancellation for the state owned companies**, in the case of social security funds.

All the recommendations, priorities and measures incorporated in the previous paragraphs are mandatory in order to develop in Romania an enabling business environment and a competitive SMEs sector.

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