

## **ROMANIAN SMEs IN CONTEXT OF NATIONAL AND INTERNATIONAL COMPLEX EVOLUTIONS**

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### **ABSTRACT**

*Taking into consideration that SMEs have a major contribution to achieving GDP, getting revenues to the state budget and creating new jobs in the European Union countries, highlighting some important aspects regarding impact of national and international complex evolutions in recent years on micro, small and medium sized enterprises and entrepreneurs from Romania, has a special significance. The paper aims to present the results of complex researches made in 2013 and 2009-2012 by questionnaire-based investigation of complex samples of Romanian SMEs, from all branches, age groups and development regions.*

**KEYWORDS:** *SMEs, business environment, dynamic, training, consultancy*

**JEL CLASSIFICATION:** *L26*

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### **1. INTRODUCTION**

The global economic crisis that started in 2008 generated many negative effects in Romania. The study will present the dynamics of SMEs in the period 2009 - March 2013, psychological impact of the current economic situation on entrepreneurs, perceptions of deciders from small and medium enterprises regarding the business environment in Romania and the ability of central government/ local authorities to counter economic crisis and dynamic training and consultancy in SMEs in 2009-2013. Regarding research methodology, it should be noted that investigations based on questionnaires were considered representative samples of SMEs and that were preferred stratified optimal poolings.

### **2. DYNAMICS OF THE ACTIVITY OF SMES BETWEEN 2009 - 2013**

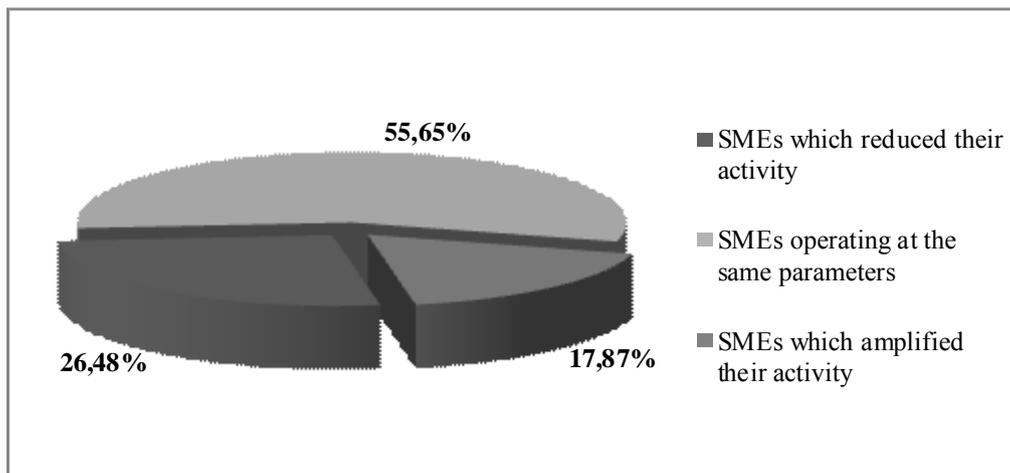
Highlighting the impact of internal/ international negative economic evolutions over Romanian SMEs, that have a significant contribution to value creation, is of great importance. Due to the fact that entrepreneurs within the bankrupt companies could not be reached (they closed down the companies or showed no availability to provide information), we hereby present two categories of results from the pooling:

- The first category refers to the evolution in the period 2009 - March 2013 of the activities within SMEs under investigation (figure 1): survey reveals that 55.65% of the companies act on the same parameters, 26.48% of the companies have decreased their activities and 17.87% of enterprises have had an upward evolution.
- The second category of results focuses on the entrepreneurs assessments regarding the evolutions of SMEs whose business activity is very well known (suppliers, customers, friends' companies, etc.) between 2009 and March 2013; the pooling shows that 37.20 % of companies reduced their businesses, 29.97% of firms operating at the same

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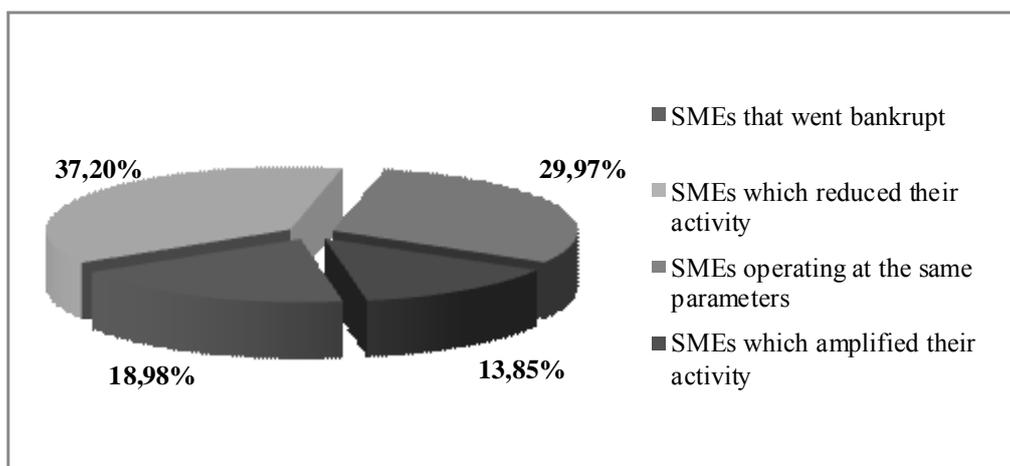
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parameters, 18.98% of the organizations have gone bankrupt or are in bankruptcy situation, and 13.85% of enterprises have increased their activities. See figure 2.



**Figure 1. Dynamics of the activity of SMEs under investigation between 2009 and March 2013**

*Source:* adapted from Nicolescu et al. (2013, p. 57)



**Figure 2. Dynamics of the activity of SMEs whose business activity is very well known by entrepreneurs, between 2009 and March 2013**

*Source:* adapted from Nicolescu et al. (2013, p. 57)

Although the information having been provided by entrepreneurs with regard to other companies may be affected by the subjectivity related to the perception of other companies' status, we believe that the status presented hereunder is relevant for making up an overall picture of the evolution of SMEs between 2009 and March 2013.

The grouping of SMEs, as per classes of size, points out that the increase of business activity is registered in a frequency that is directly proportional to the companies' size, the percentages of enterprises that operating at the same parameters varies inversely with the size of firms and weights of organizations that reduced their activity are higher among micro-enterprises. This situation is explained by the fact that, usually, amplification of the organization has the effect of reducing its exposure to unfavorable contextual evolutions. One may find details in table 1.

**Table 1. Dynamics of the activity of SMEs under investigation between 2009 and March 2013, subject to their size**

	Dynamics of the activity of enterprises during the period 2009- March 2013	Size of companies		
		Micro-enterprises	Small enterprises	Medium enterprises
1.	SMEs that reduced their activity	28.00%	18.73%	22.73%
2.	SMEs operating at the same parameters	56.46%	56.18%	34.85%
3.	SMEs that amplified their activity	15.54%	25.09%	42.42%

Source: adapted from Nicolescu et al. (2013, p. 59)

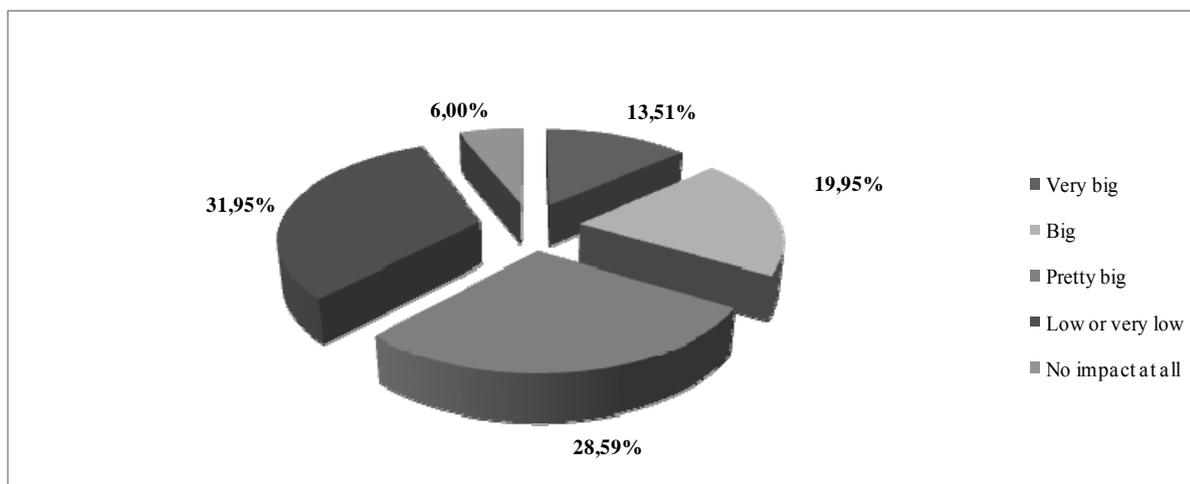
## 2. PSYCHOLOGICAL IMPACT OF THE CURRENT ECONOMIC SITUATION ON ENTREPRENEURS

Although Romania's GDP has increased the previous year and the World Bank has forecast growth of Romanian economy in 2013, our country and some European Union countries face many problems at micro, meso and macroeconomic level, and a large number of specialists consider that the Euro - zone will be affected by the recession in the incoming years. Unfavorable national and international economic developments from recent years, uncertainties related to the current economic situation and the unpredictability of future evolutions have impacted and are impacting, at psychological level, a significant part of business people.

Taking into consideration these aspects, it is important to have a view on the extent to which Romanian entrepreneurs/ managers are emotionally influenced by current economic situation. The investigation revealed the followings:

- 31.95% of SMEs' decision makers feel threatened in a small or very small proportion of mondo and macroeconomic context;
- 28.59% of entrepreneurs are pretty much affected by the actual economic situation;
- 19.95% of businesses people are highly impacted by economic trends;
- 13.51% of the decision makers are heavily influenced by economic conjuncture;
- 6.00% of people are not impacted by current economic conditions.

See Figure 3.



**Figure 3. Psychological impact of the current economic situation on entrepreneurs**

Source: adapted from Nicolescu et al. (2013, p. 61)

It can be noticed that the current economic situation negatively affects at psychological level almost 2/3 of entrepreneurs, which having unfavorable impact on SMEs' activities due to the decrease of their appetite for taking risks or making investments.

Considering the size of companies, we mainly observe that:

- the frequencies of entrepreneurs being very high and pretty high impacted by the economic situation decrease with the size of SMEs;
- small firms have the highest proportion of decision makers who are largely impacted by mondo/ macroeconomic context (24.24%);
- medium - sized enterprises have the highest percentages of entrepreneurs little/ very little affected by current evolutions (43.75%) and who do not feel threatened by economic conditions (12.50%).

For details, see table 2.

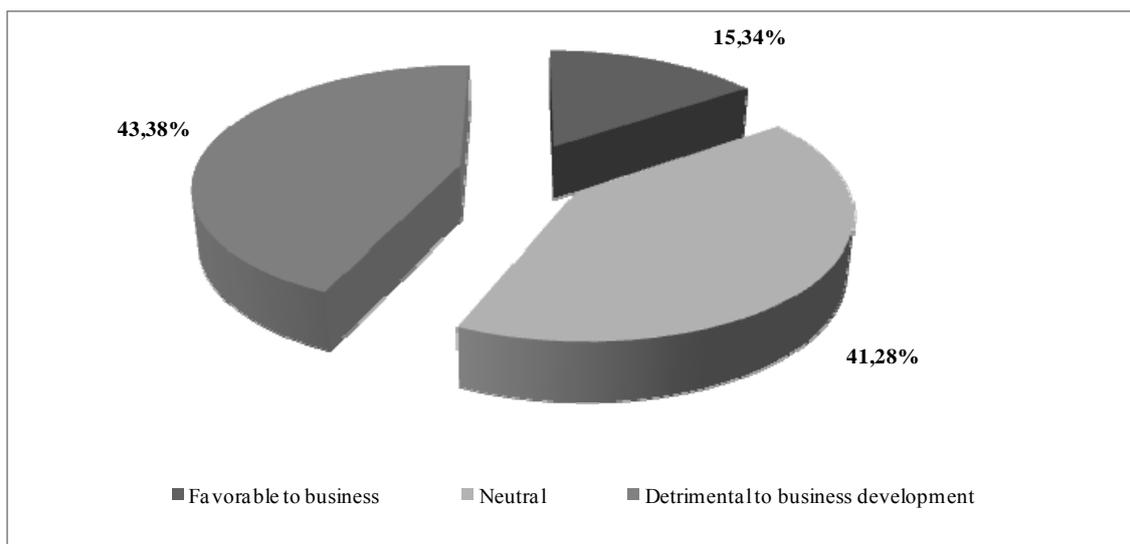
**Table 2. Psychological impact of the current economic situation on entrepreneurs, subject to SMEs size**

	Psychological impact of the current economic situation on entrepreneurs	Size of companies		
		Micro - enterprises	Small enterprises	Medium enterprises
1.	Very big	14,19%	11,36%	6,25%
2.	Big	19,05%	24,24%	23,44%
3.	Pretty big	29,17%	28,79%	14,06%
4.	Low or very low	31,54%	31,44%	43,75%
5.	No impact at all	6,04%	4,17%	12,50%

*Source:* adapted from Nicolescu et al. (2013, p. 63)

### 3. ENTREPRENEURS' ASSESSMENT OF THE ROMANIAN ECONOMIC ENVIRONMENT

The current overall economic environment in (figure 4) is perceived as being detrimental to the development of companies in 43.38% of firms, neutral in 41.28% of SMEs and favorable to businesses in 15.34% of the organizations. It can be noted that only 1 of 6 entrepreneurs is satisfied with the Romanian business environment, which demonstrates that radical actions are required from political decision makers in order to improve the operating conditions of small and medium enterprises.



**Figure 4. Entrepreneurs' assessment of the current economic environment**

*Source:* adapted from Nicolescu et al. (2013, p. 30)

Considering the dimension of SMEs (table 3), we remark that the frequencies of favorable opinions increasing as companies grow in size, and percentages of negative perceptions reducing simultaneously with the enhance of enterprises' size.

**Table 3. Differentiation of the business environment assessment, subject to companies size**

	Overall status of the current economic environment	Size of companies		
		Micro - enterprises	Small enterprises	Medium enterprises
1.	Favorable to business	13,84%	19,85%	31,75%
2.	Neutral	41,18%	43,82%	33,33%
3.	Detrimental to business development	44,98%	36,33%	34,92%

Source: adapted from Nicolescu et al. (2013, p. 34)

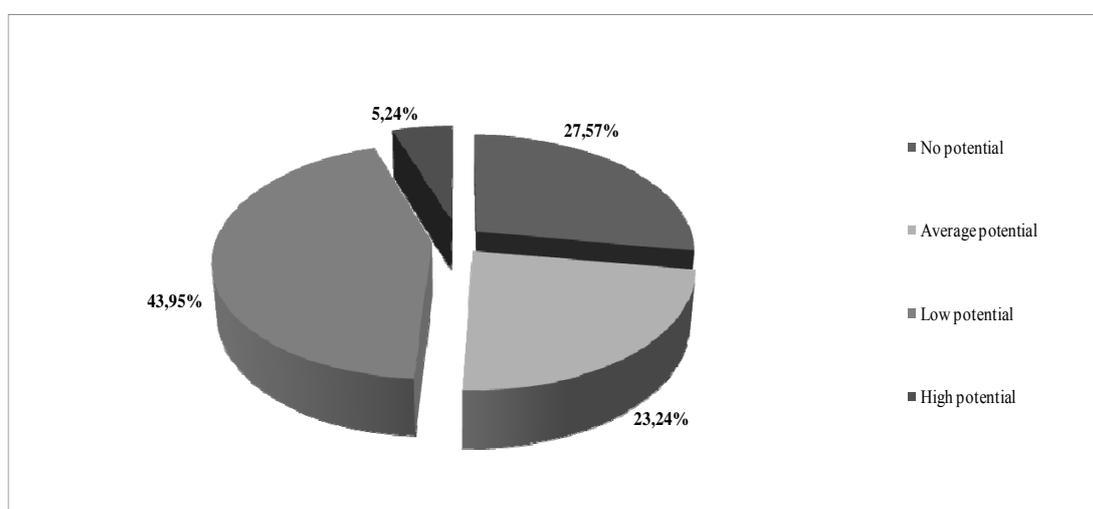
#### 4. ENTREPRENEURS' PERCEPTIONS REGARDING THE CENTRAL AND LOCAL PUBLIC AUTHORITIES' ABILITY TO COUNTER ECONOMIC RECESSION

In times of recession/ economic crisis, central and local authorities in each country should play a major role in combating the negative effects and contribute to economy recovery, by adopting and implementing radical measures based on internal and external economic realities.

The analysis of entrepreneurs' perceptions with regards to the ability of central and local authorities to contribute to a rapid exit from recession (figure 5) reveals the following aspects:

- 43.95% of business persons consider that state's entities have limited resources to cope with negative contextual developments;
- 27.57% of entrepreneurs believe that public institutions do not have the needed skills / qualities to rapidly combat economic decline;
- in 23.24% of SMEs is considered that authorities have a medium potential to improve the negative trend of economic environment;
- only 5.24% of interviewed people appreciate that central and local government bodies have a high capacity to overcome recession.

We see the reduced proportion of entrepreneurs who trust in the potential of public authorities to contribute to a quick recovery of the Romanian economy, situation explained by insufficient consistency of measures taken to date, the problems regarding budget deficit that Romania and some EU countries are facing, and the fact that many of the developed countries of the world have failed to find solutions to counter the economic downturn.



**Figure 5. Entrepreneurs' perceptions regarding the central and local public authorities' ability to counter economic recession**

Source: adapted from Nicolescu et al. (2013, p. 70)

Considering the analysis **by dimensions of SMEs** (table 4.) the following issues are to be noted:

- proportions of entrepreneurs who appreciate that public administration has a high capacity to quickly contribute to the recovery of economy increase proportionally with enhance of organizations' size;
- percentages of companies considering that central and local administrations do not have possibilities to combat recession decrease while increasing size of firms;
- small firms hold a higher weight of entities in which is considered that authorities have a medium potential to rapidly counter negative contextual evolutions (30.45%).

**Table 4. Entrepreneurs' perceptions regarding the central and local public authorities' ability to counter economic recession, subject to SMEs' size**

	Local and central public authorities' capacity to contribute to a fast getting out of recession	Size of companies		
		Micro - enterprises	Small enterprises	Medium enterprises
1.	High potential	4.35%	8.65%	12.12%
2.	Average potential	21.74%	30.45%	28.79%
3.	Low potential	44.60%	38.72%	50.00%
4.	No potential	29.31%	22.18%	9.09%

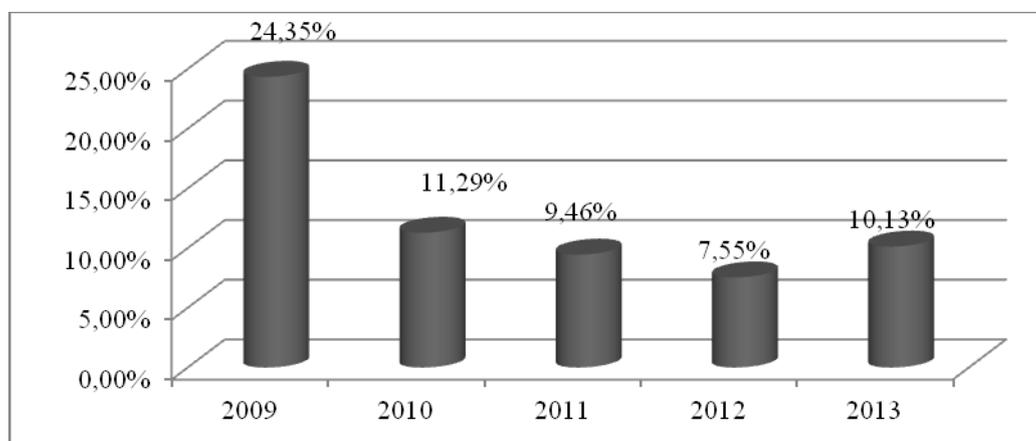
*Source: adapted from Nicolescu et al. (2013, p. 72)*

## 5. DYNAMICS OF USING CONSULTANCY AND TRAINING SERVICES WITHIN SMEs DURING PERIOD 2009-2013

Whereas accessing consultancy and training services can favorable influence to a considerable extent the performance of a companies, it is important to emphasize the frequency in which SMEs have accessed them during period 2009-2013.

Taking into consideration the use of consultancy services by SMEs during period 2009-2013 (figure 6) we remark the followings:

- The frequency of using consultants had a descendent trend during the first four years of the range analyzed;
- In 2010 was recorded the largest decrease of accessing consultancy services, more than 2 times compared to previous year;
- 2013 is the only year in the examined period in which had increased the degree of using consultancy services by SMEs, reaching almost the level from 2010;
- during the five years under review was noticed a 2.4 times reduction of the weight of firms using external consultants.



**Figure 6: Dynamics of using consultancy services by SMEs during period 2009-2013**

*Source: adapted from Nicolescu et al. (2009, 2010, 2011, 2012, 2013)*

Analyzing the average number of working days/ employee dedicated to training by Romanian SMEs during period 2009-2013, reveals a number of significant aspects:

- In each of the years from the period under observation have been increase the weight of companies not allocating any day of training for their employees, as well as decrease the proportions of firms that have dedicated annually 1-5, 6-10 and over 10 working days of training for employees;
- In 2013 has been observed an increase by 2.5 times compared to 2009 of the percentage of SMEs that have not used the training (83.13% in 2013 and 35.25% in 2009);
- The proportion of companies focused on enhancing employees' training decreased in 2013 compared to 2009 by more than 13 times (from 12.27% to 0.92%).

Further information is given in the table below.

**Table 4. Dynamics of average working days per employee allocated to training within SMEs in Romania during period 2009-2013**

		%				
	Average number of working days, as dedicated to training within SMEs	2009	2010	2011	2012	2013
1.	None	35,25	60,88	62,52	70,7	83,13
2.	1-5 days	36,61	24,88	23,46	21,35	12,35
3.	6-10 days	15,87	7,20	7,87	4,34	3,61
4.	More than 10 days	12,27	7,04	6,16	3,61	0,92

*Source:* adapted from Nicolescu et al. (2009, 2010, 2011, 2012, 2013)

In the latter years, we observe that the intensity of consultancy and training activities in SMEs showed a strong negative trend, primarily due to the period of downturn/ recession, which led to diminishing financial potential of many companies, and thus reducing their availability for investment in consulting and professional training of employees, but as well due to negative attitudes of some entrepreneurs who do not realize the importance and necessity of getting consultancy/ training for them and for their subordinate staff.

## 6. CONCLUSIONS

One may draw the conclusion that a significant part of Romanian small and medium sized enterprises have faced major problems, due to the economic decline. As in other countries from the world and the EU, these companies have found it very hard to deal with and face economic crisis, which situation may be explained by the fact that SMEs are, generally, more vulnerable to contextual turbulences, than big companies. Unfavorable contextual developments have affected more frequently and more intensely micro - enterprises, which have certain "weaknesses" in comparison with other firms. Stability and perenniality more "volatile" of a micro - firm due to lower resources and reserves at its disposal, addiction usually decisive of its existence by one person - the entrepreneur and the technical level lower frequency (Nicolescu & Nicolescu, 2009).

Considering that over 2 out of 5 entrepreneurs perceive business environment in Romania as unfavorable to the development of SMEs, policy makers must primarily elaborate a comprehensive and rigorous national strategy for SMEs, as required by management science and to adopt a new law for SMEs in order to ensure at national level a wholly implementation of the Small Business Act, to apply the principle "Rule first for SMEs" and gradually increase from 0.4% to 1% of GDP of the funds allocated from state budget for financing development programs, measures to support start-ups and to sustain, at national and local level, the development of small and medium-sized enterprises for the period 2014-2020 (Nicolescu et al., 2013).

If we refer to training and consultancy services, considerable decrease of the frequency in which SMEs contracts them have a high negative impact on the professionalism of managers/ executives

of SME and on the competitiveness of this particularly important sector on which depends overcoming the recession and economic recovery. It is urgently required that entrepreneurs/decision makers from SMEs to reconsider the approach on both training and consultancy activities, precisely to allocate with priority part of financial resources in order to improve human resources and to ensure in this way the access of the companies they lead to relevant analysis and efficiency solutions of managerial, financial, commercial etc. nature. Also, it must be made operational, using European funds, as many programmes dedicated to training in SMEs and consultancy, mentoring, tutoring and coaching for entrepreneurs, in order to increase the managerial and entrepreneurial competitiveness. We recommend enlargement of the level of using Romanian consultants and trainers, despite the fact that foreign consulting and training organizations are better rated than autochthonous universities and companies, because in Romania are many valuable collective of professors and experts who can provide high quality services, both because of their considerable experience in various specialty domains, as well as a high degree of knowledge of the specific features of private companies within our country and of the sectoral and national context in which they operate (Nicolescu et al., 2013).

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