

ROLE AND COMPETITIVENESS OF SMALL AND MEDIUM-SIZED ENTERPRISES IN MODERN ECONOMY. FINANCIAL CRISIS AND ITS IMPACT ON SMALL AND MEDIUM-SIZED ENTERPRISES.

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Abstract: It is unanimously accepted that the small and medium-sized enterprises are an important component of the economic activities. With an unpromising beginning in the early 1990s, their number has grown significantly over the years, both statistically and from the perspective of their diversified activities. Unfortunately, SMEs have been the most affected by financial crisis, once with the dramatic decrease of domestic demand and liquidities, and most importantly, the hardening of the financing conditions, which have all led them into bankruptcy.

1. **SMEs in the European Union**
2. **Overview of the SME sector in Romania. Different aspects of the SME integration in the EU. The financial crisis impact on Romanian SMEs. The future of SMEs. The necessity to identify and promptly react to market changes.**

1. SMEs in the European Union

The single market, which involves the removal of the EU internal borders has facilitated the reformulation of the SME definition all over the European Union. This definition comes to improve the efficiency of the measures already taken for SME development but also to set forth a set of common decisions regarding these enterprises at national and international level. Meant to modify the definition recommended in 1996 by the European Commission, the new definition, being at its turn nothing more than a recommendation, came into force on January 1st 2005.

„The category of Micro, Small and Medium-sized Enterprises is made up of those enterprises which have a staff of less than 250, an yearly net turnover of up to 50 million euro and/or total assets of up to 43 million euro”.

Categoria intreprinderii	Numarul mediu de salariatii	Cifra de afaceri	Active totale
Mijlocie	<250	≤ 50 milioane € (in 1996 40 milioane €)	≤ 43 milioane € (in 1996 27 milioane €)
Mica	<50	≤ 10 milioane € (in 1996 7 milioane €)	≤ 43 milioane € (in 1996 5 milioane €)
Micro	<10	≤ 2 milioane € (nedefinita in reglementarea anterioara)	≤ 2 milioane € (nedefinita in reglementarea anterioara)

Source: SME definition: <http://www.salesconsulting.ro>

SMEs are highly important for both the European and world economy. They have brought about new jobs, economic growth, innovation or entrepreneurship development. Therefore, the different measures debated within the present paper aim at overcoming or at least reducing the difficulties these SMEs have to cope with on the market, from the attempt to obtain a credit to the use of this money for innovation and new technology.

P. Druker claimed that „small businesses represent the main catalyst of economic growth”. The arguments to uphold this view are numerous. They range from the idea that SMEs can rapidly be integrated in a national industrial structure, which determines new jobs and improves the standard of living, to the fact that they are highly adaptable to economic changes and can be more easily managed due to their smaller size.

The European Union has brought SMEs in the limelight of European policies. „Pursuant to the European Law concerning the SMEs activities, the entire force of Europe is directed to the SMEs, involving all the European resources to support the small enterprises in their daily activities and to prepare the path for those having the intention to create more jobs and to develop in Europe and outside its borders”.¹

The importance of SMEs has been acknowledged even at the highest political level. In 2008, the Council of Europe encouraged the initiative named „Small Business Act” for Europe, whose goal was to consolidate their growth and sustainable competitiveness. The review of the SMEs modern policy, which took place between 2005 - 2007, showed that both the member states and the EU had made some progress in facilitating a SME-friendly environment.² Yet, due to the current world economic crisis, EU will have to come up with some additional measures so that the SME potential could be fully exploited.³

The attempt to adopt a common European legislation for the SMEs has determined the European Commission to lay down a set of 10 principles, meant to become a reference point for policy creation and implementation at both national and international level. Here are some of these measures⁴:

By the „Erasmus Programme for Young Entrepreneurs”, the new entrepreneurs can benefit from cross-border mobility and thus, can acquire experience and new competences in foreign SMEs.⁵

Another measure aims at applying a „SME test” to all legislative and administrative proposals, with a view to evaluating their consequences on SMEs. If their impact happens to be negative, the SMEs can benefit from derogation or periods of transition or exemption. The idea is to reduce the time needed to set up an enterprise to no more than a week and to obtain the appropriate licences and authorisations to one month.

The Public Procurement Code of Good Practice shall provide solutions to SME difficulties.

¹ Gunter Verheugen, vice-president of the European Commission, in charge of the industry and enterprises

² Commission of the European Communities, Bruxelles, 25.06.2008 COM (2008) 394 final, Small Business Act

³ SBA Impact Evaluation, SEC (2008) 2101, UE SME Observatory of 2007

⁴ <http://ec.europa.ro/enterprise>

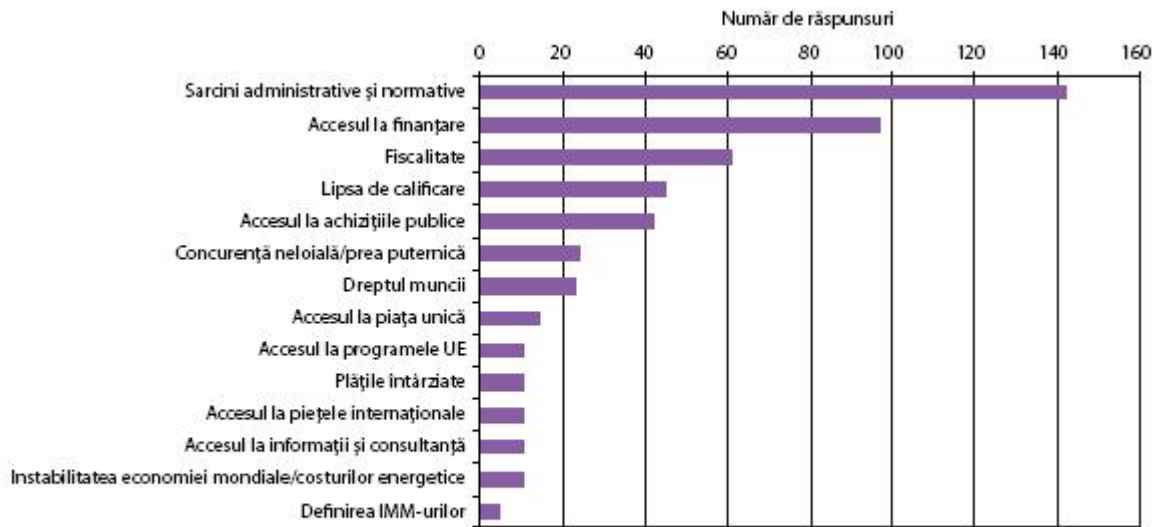
⁵ In some European countries entrepreneurship education is part of the secondary school curriculum, being an important objective of the educational system. For instance, the small “R@” business set up pupils from an Estonian village created a very successful fabric-covered mouse. At the same time, pupils are stimulated to take part in these small businesses so that they could become familiar with the business world, different studies showing that about 20 % of the participants have created their own businesses; <http://ec.europa.ro/enterprise>

The European Investment Bank will facilitate the development-capital financing - the Commission's plan being to provide funds for micro-credits -, and will enable the access to cross-border risk capital.⁶

The new Statute for a European Private Company will enable SME financing and functioning, according to the same provisions of the Law on Trading Companies all over Europe.

European SMEs represent 99,8% of the entire range of European enterprises, 67,1% of the private sector jobs, over 80% of the workforce in certain industrial sectors (civil engineering, furniture).⁷ Moreover, microenterprises account for 91,5%.

The European SMEs have to face various difficulties, among which the most challenging are: administrative and normative tasks, access to financing, excessive fiscality, lack of qualification, access to public procurement, unfair competition, access to EU programmes, etc.⁸



N.B.: A fost posibilă oferirea mai multor răspunsuri

Sursă: Comisia Europeană, Raport privind rezultatele consultării publice referitoare la Legea privind întreprinderile mici pentru Europa, aprilie 2008

⁶ The Commission's Competitiveness and Innovation Framework-Programme (CIP) for 2007-2013 allocated over 1 billion euro for SMEs, amount that could allow different financial institutions to grant about 30 billion euro for financing to around 475,000 SMEs. For instance, High Grow and Innovative SME Facility (the facility for innovative and rapid development SMEs) provides risk capital to innovative and expanding companies. SKYPE Technologies (which provides voice over Internet protocol) has been granted EU financing to start their business, and has been then acquired by eBay for 3.25 billion euro, in the paper *Intreprinderile mici au prioritate*. Europa este buna pentru IMM-uri iar IMM-urile sunt bune pentru Europa, Comisia Europeana. *Intreprinderi si industrie*. Editia 2008. Oficiul Pentru Publicatii, Publications. europa.eu, pg.1

⁷ Eurostat, Key-indicators for enterprises in the non-financial company economy, UE27, 200

⁸ European Commission. Report on the results of public consultation on the European Law for Small Enterprises, April 2008

For most SMEs, the administrative burden is the heaviest. The EC Action Plan of 2007 to reduce the enterprise administrative burden by up to 25% affects the work relations, VAT, statistical data (e.g. these companies no longer have to publish their corporate information in the National Official Monitors). The capital is essential for starting and developing a business, but the access to proper financing solutions appears as another difficulty faced by SMEs, because banks and investors are reluctant to finance them due to the involved risks. For example, between 1998-2006, about 744 million euro were allocated to 360,000 SMEs. The amount reached over 1 billion euro as part of the Commission's Competitiveness and Innovation Framework-Programme (CIP) for 2007-2013.

SMEs represent, as it has been many times emphasized, the main employer and contributor to the EU Gross Domestic Product (GDP). For instance, the Polish SMEs ensure 50% of the GDP on an estimated market with 38 million consumers, and they hire about 70% of the workforce. In Hungary, 50% of the GDP relies on SMEs, along with 60% of the workforce. In the Czech Republic, SMEs ensure 80% of the GDP and in Romania 70%, respectively.⁹

2. Overview of the SME sector in Romania. Different aspects of the SME integration in the EU. The financial crisis impact on Romanian SMEs.

At national level, there have been attempts to consolidate the Romanian enterprise competitiveness, considering that SMEs were about to enter the European market. The reference points have been the provisions of the European Charter for Small Enterprises, adopted in Lisbon in 2000.¹⁰ Furthermore, in 2002, along with other candidate states, Romania signed the Maribor Declaration, by which it pledged to harmonize its policies supporting the domestic company competitiveness with the Charter of Lisbon.

The governmental strategy for 2004-2008 to support the SME development was part of its commitment to improve the competitiveness in this sector, to finish the industrial restructuring, to encourage the creation of new enterprises, to develop the basis of entrepreneurship and improve the business environment. In 2003, the elaboration of the National Development Plan (NDP), a national strategic document, substantiated the EU assistance offered to our country.

It is unanimously accepted that the small and medium-sized enterprises are an important component of the economic activities. With an unpromising beginning in the early 1990s, their number has grown significantly over the years, both statistically and from the perspective of their diversified activities.

Romania's transition to a market economy has determined the adoption of a legislative framework sometimes difficult to understand and to implement. The experience provided by other European countries has been vital, and the EU joining process of our country has entailed the continuation of the reforming process, with an emphasis on adjusting the entire social and economic system to the expectations of this kind of enterprise¹¹.

⁹ <http://www.zf.ro//business-international>, articol de Cristina Roșca, 20.10.2009

¹⁰ <http://www.mimmc.ro>

¹¹ Velemir Radovan, Problematika IMM-urilor din Regiunea Sud-Vest Oltenia. Nevoi și cerințe educaționale, pe www.hrmanager.org.ro

Romania's macroeconomic achievements have facilitated a favourable environment for SME development. These SMEs, particularly the manufacturing and exporting ones, have tried to cope with the single market competition. In their attempt to adapt their products and strategies to the new economy, SMEs have faced the new legislative provisions, especially meeting the new quality certification standards.

The main feature of the Romanian SMEs is their small size and obviously, the reduced value of their investments. In spite of the existence of the single market, they have been poorly represented worldwide as importers, exporters, or subcontractors of some foreign companies.¹²

In 2004¹³, 46.1% of SMEs stated to have made small investments, while 14.3% mentioned large investments. An interesting fact is that 37.9% of these SMEs had not made any kind of investment. The highest investment percentage belonged to the „Hotel and Restaurant” sector, whereas the weakest representation was offered by the „Agriculture and Fishing” sector.

The innovation capacity¹⁴ and flexibility, the ability to meet the market needs, the launch of new products have all been observed in the following sectors: „Industry and Energy”, „Trade”, „Hotels and restaurants”. Microenterprises have proved to be the least capable of launching new products. Regarding the purchasing of new technologies, 68.1% of the SMEs did not make any in 2004, and among the rest of them, medium-sized enterprises were the top buyers.

The introduction and certification of the quality management system has brought about various benefits such as: precise task assignment within a company, internal efficiency, attraction of new clients, the exportation procedure simplification, improvement of the company position on the market. Once with the EU integration, it has become a necessity to copy and implement the European standards, but not only for exporting companies.

When it comes to SME participation in the public procurement process, an amazingly great number of them (85.1%) have not entered the competition for public works.

Their poor representation on the international market (10% as importer, 6% as exporter, 6.9% as subcontractor of some foreign companies) proves of the fact that SMEs have maintained their focus on the Romanian market, and that they are far from being ready and capable to take advantage of the economic globalization.

The White Charter of Romanian SMEs (2009) has been studying the SMEs evolution and perspectives in the context of financial crisis in Romania.¹⁵ Different studies have focused on the business opportunities accessible to SMEs between 2008-2009, the difficulties they

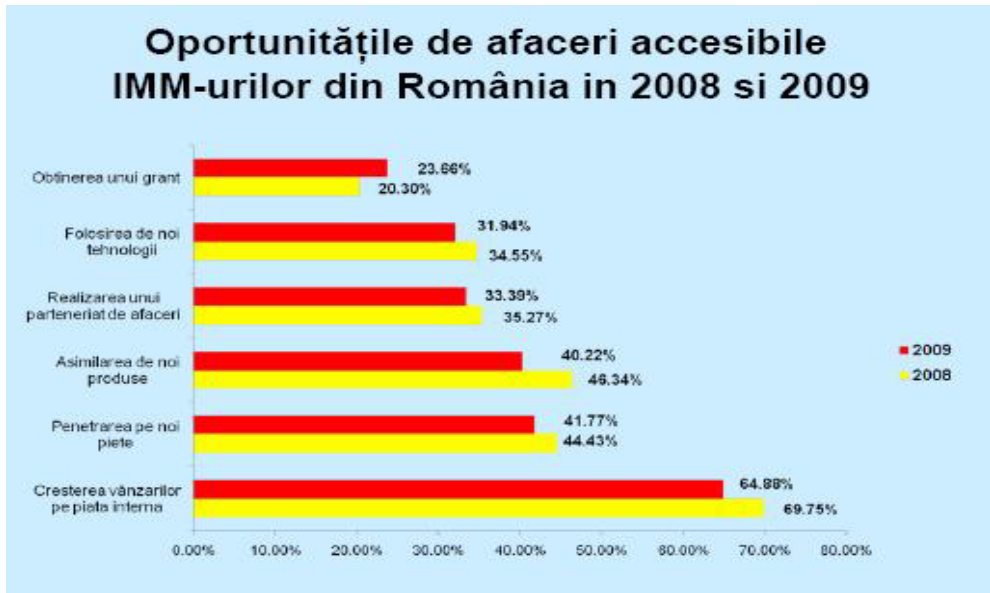
¹² Corina Voiculescu, Perfecționarea managementului IMM-urilor din România în condițiile integrării țării noastre în UE, doctoral thesis abstract, on www.biblioteca.ase.ro

¹³ SME competitiveness and its influence factors, on <http://www.mimmc.ro>

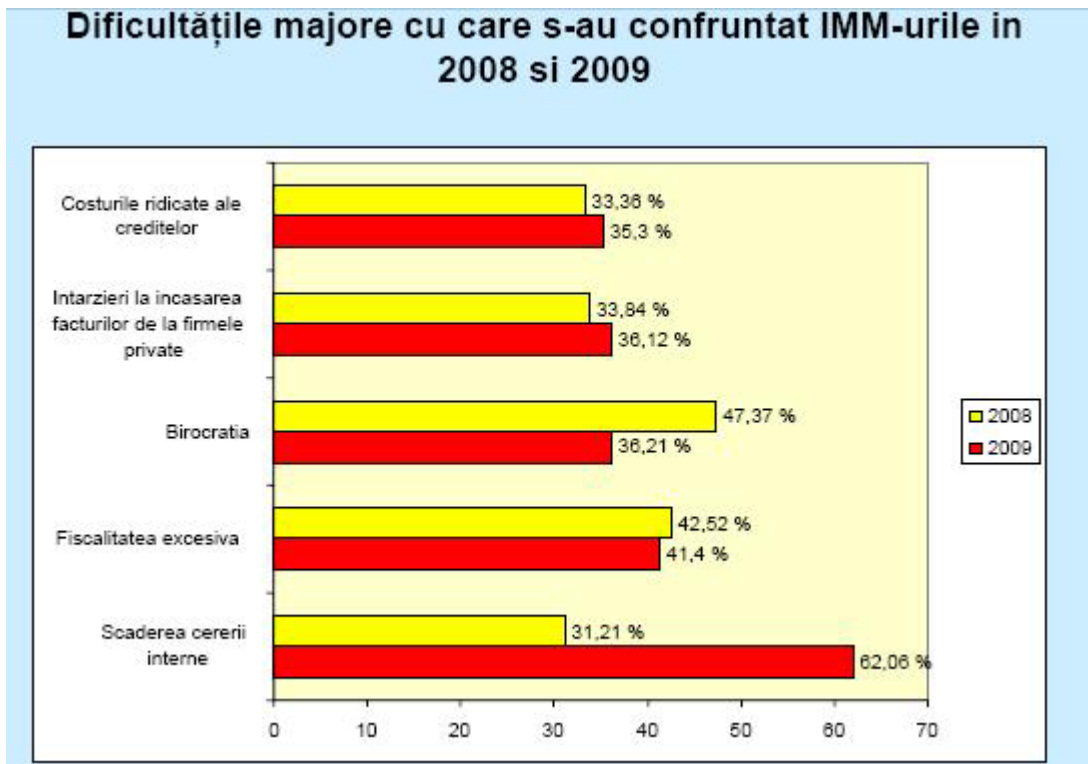
¹⁴ The main financial instrument of the Innovation Commission strategy is the Competitiveness and Innovation Framework-Programme (CIP), which provides support for the innovative activity investment, mainly to SMEs, programme with a budget of 3.6 billion euro over 2007-2013. Also, starting from 2006, the European Commission and the European Patent Office have granted patents to both innovative individuals and corporate bodies (in 2008, the SME section was won by the Optos Company from UK, which had developed a new laser eye-scanning technology), on <http://www.europe-innova.org>

¹⁵ The surveys are based on both statistical data and the findings of a study made at national level on a sample of 1099 entrepreneurs.

had to deal with at the same period, the main financing opportunities, their overall results as compared to 2007 and 2008. Here are two charts based on this study.



Sursa: Carta Albă a IMM-urilor, 2009, pe <http://www.immromania.ro>



Sursa: Carta Albă a IMM-urilor, 2009, pe <http://www.immromania.ro>

SMEs have been the most affected by financial crisis, once with the dramatic decrease of domestic demand and liquidities, and most importantly, the hardening of the financing conditions, which have all led them into bankruptcy. According to a poll realised by the National Union of Romanian Employers, in March 2009, 74% of SMEs declared that the current crisis had been triggered by external conditions, while 26% held the Government responsible for the lack of coherence in measure implementation.¹⁶ The heaviest losses have been registered by the tobacco industry (2,453 lei / enterprise), crude oil processing industry (1,677.8 lei / enterprise), hydrocarbon extraction sector (891.8 lei / enterprise), road transport industry (813.7 lei / enterprise).¹⁷

The first SMEs to bear the crisis consequences have been those which hadn't made a business plan, weren't capitalized and depended by contract on large enterprises.

As we have already mentioned, being small-sized enterprises, most of them have neither specialized human resources departments nor strategies to organize the workforce. Therefore, the first action to take in times of crisis was to cut the salaries or to lay off most employees. A natural consequence was the lack of staff motivation, the occurrence of panic, and obviously, questions about the persons who were on the verge of unemployment, all these factors determining a decrease in productivity. The rush for rapid results at low costs has brought about the employment of unqualified or poorly qualified personnel, triggering a real crisis of competences.¹⁸

Moreover, the number of orders has decreased while financing has been stopped. The representatives of the Private SMEs Board (CNIPMMR) have estimated that about 90% of the over 600,000 Romanian SMEs would be hit by financial crisis. Most likely exporting enterprises, which have encountered real challenges and are thought to go bankrupt to up to 40% of them (considering that most of the 15,000 exporters are SMEs). A great number of small and medium-sized enterprises have chosen to reduce the overhead expenses and those for services provided by third parties.

By the end of 2009, microenterprises had benefited from special taxation conditions, allowing them to choose between paying a profit tax or an income tax, which continuously increased to up to 3% of the income. Without this provision, the notion of microenterprise could be removed from the Fiscal Code.

In 2008, about 280-300,000 microenterprises were registered, with up to 9 employees and an yearly income of at the most 100,000 euro. It has been stated that the goal of this measure was to avoid tax evasion in fields like hotel and restaurant industry, or beauty salons. The introduction of the minimum tax is based on data regarding the activity of the Romanian companies, which have showed that between 2005-2007, 242,000 of the total number of 617,000 registered companies had declared company loss and not profit. Consequently, estimates are even more pessimistic suggesting that 40% of SMEs will go bankrupt. According to the Ministry of SMEs, about 240,000 of the 600,000 registered SMEs will close their

¹⁶ IMM-urile în criză: Soluții de salvare pentru întreprinderile mici și mijlocii, 31 martie 2009, pe <http://www.9am.ro>

¹⁷ The White Charter of SMEs (2009), 7th Edition

¹⁸ International Advertising Association, March 18th 2009, Criza financiară-oportunitate pentru IMM-uri, pe <http://iaa.ro>,

business, especially that as compared to 2009, 4 times more companies have already been suspended in 2010, mostly trading SMEs.

Romania is one of the countries most affected by economic crisis. As compared to other European countries, in Romania, apart from the large number of SMEs that have declared bankruptcy, many have also faced a decrease in sales figures (21-50%), according to a survey realised in May 2009 by the National Credit Guarantee Fund for Small and Medium-sized Enterprises.¹⁹ In Poland, about 497 companies declared insolvency during the first 9 months of 2009, as compared to a number of 317 in 2008, according to Corface, the credit insurer. Also, it has been estimated that tens of the 340,000 Hungarian SMEs at the end of 2008, would go bankrupt (accounting for more than a fifth). In the Czech Republic, about 20% of the laid-off employees have worked in a SME.

The possible solution detected by most specialists is to „relieve financing” (O. Nicolescu, president of CNIPMMR), because in order to get a loan, an SME has to face absurd conditions. Most SME representatives consider that credit relaxation combined with other economic measures could determine the business environment recovery (60% of these SMEs), while others believe that relaxation measures should be taken in the fiscal sector. In times of financial crisis, most of SMEs owners have had to revise their forecasts for 2009-2010, taking into account possible further lay-offs, or even the reduction or cessation of other SME activity. A highly important issue is the fact that about 47% of the Europeans are reluctant to making an order to an enterprise which has previously undergone bankruptcy. At the same time, those who wish to restart business are penalized with the extension of the bankruptcy period, which is between 4 months-9 years in the EU.²⁰

Possible solutions for SMEs revigoration could be the reorientation toward more profitable sectors. According to a survey made by MEMRB (quoted by Wall Street), 45% of SMEs believe that other advantages could also be the weak competition and lower prices for equipments and raw materials, whereas 15% foresee some opportunities on condition that investments are made on the real-estate market.

Setting a common European objective is of the utmost importance, irrespective of the national situation of a certain country.²¹ The role of the small-sized enterprises must be acknowledged once again in our society. The very existence of the Small Business Act (SBA) and its fundamental principle: „Think small first” proves that SMEs desperately need support from all entitled institutions.

Here are some of the most important EU recommendations to the member states²²:

¹⁹ SMEs, the driving force of the Eastern European economies, are striving to resist the recession while banks are not even thinking about granting financing, on <http://www.zf.ro/business-international>

²⁰ Depășirea stigmatizării eșecului în afaceri – pentru o politică a celei de-a doua șanse – Punerea în aplicare a parteneriatului de la Lisabona pentru creștere și locuri de muncă COM(2007) 584 final. 5.10.2007, in Small Business Act, pe <http://ec.europa.ro>

²¹ During the crisis, support SMEs , on <http://www.zf.ro>

²² European Community Commission, Bruxelles, 25.6.2008 COM(2008)394 final, The Commission’s Communication to the Council, European Parliament, European Economic and Social Committee and the Committee of the Regions, on <http://ec.europa.ro/enterprise/policies//sme/small-business-act>

- Setting important objectives to reduce the Community administrative tasks with 25% by 2012, and implementing them;
- Adopting the Commission proposal that would allow the member states to rise the minimum VAT registration amount to 100,000 euro;
- Attempting to reduce to less than a week the time to set up a business;
- Reducing and simplifying the required licences and authorisations (maximum one month);
- Not asking SMEs for information that the administration has already been provided with;
- Facilitating the full and synchronized implementation of the directive regarding the services, including the creation of one-stop shops that could provide enterprises with all necessary information and could carry out the procedures and formalities electronically;
- Creating electronic portals to facilitate access to information regarding public procurement opportunities with smaller funds than those of the EU;
- Consolidating the problem-solving SOLVIT system²³ to make sure that the issues over the exercise of the single market rights can be solved informally and pragmatically;
- Providing incentives for ecologically - effective enterprises and items (fiscal incentives and the priority given to sustainable enterprise aids)²⁴;
- Encouraging SME advising by larger enterprises to facilitate international market penetration.

At national level, there is the intention to conclude a National Pact for Jobs and Social Stability, which relies on the principles formulated in the Global Pact for Jobs, adopted at the Conference of the International Labour Organization of 2009. Among the most relevant policies to be adopted by the SMEs we can mention:

- Adopting a regulatory procedure by the state budget law for the annual allocation to SMEs of funds accounting for at least 1% of the GDP;
- Gradually increasing the budget for SME programmes and annually allocating funds for the same purpose, starting from 2010 – 0.5%, in 2011 – 0.8%, and 2012 – 1%;
- Stimulating research and development activities by developing SME vouchers, starting with a 2010 pilot-programme;
- Stimulating the export of high-processing products and facilitating SME access to international markets using the best EU practices in the field;
- Setting a common 2010 action plan in cooperation with the Government – NBR – Romanian Bank Association (ARB) – representatives of different trade unions and employer organizations with a view to managing the financial crisis and revigorating the SME crediting process;

²³ http://ec.europa.eu/solvit/site/index_eu.htm

²⁴ EMAS provides SMEs with counseling in areas like sustainable development and environmental impact management. Thus, SMEs can improve ecological efficiency, reduce their costs, and find new business opportunities on markets demanding ecological products, on http://ec.europa.eu/environment/emas/index_en.htm

- Preparing a „National Action Plan” regarding the „Small Business Act” implementation, in partnership with involved parties from the economic and social sectors;
- Based on the European practice, appointing a national SME Envoy to monitor the implementation of the SBAE principle and the SME – customed anti-crisis measures;
- Consulting the involved parties, SMEs included, at least 8 weeks before the presentation of a legislative or administrative proposal directly affecting the SMEs.

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- [16] <http://www.europe-innova.org>
- [17] <http://www.mimmc.ro>
- [18] <http://www.zf.ro/business-international>, articol de Cristina Roșca, 20.10.2009