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## ROMANIAN SMES AND THE ECONOMIC CRISIS

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**Abstract.** The transition of the Romanian economy towards a market economy was difficult, complex and sometimes contradictory. The need for a new institutional and legislative space was a long-term process. Sometimes, instead of common points of view were only marker generated by the experiences of some Eastern Europe countries. The adherence to European Union imposed for Romania the continuance of reforms and adaptation of the completely social and economic system to the requisition of EU.

The paper presents the actual situation of the Romanian SMEs and ways to recover there growth and competitiveness after the economic crisis.

**Keywords:** small and medium sized enterprise, economic crisis

### 1. Introduction

In 1996, the European Commission defined for the first time the micro, small and medium-sized enterprises (SMEs) in order to increase the efficiency of the communitarian programmes addressed to that particular sector [1]. Based on that document, SMEs are defined as enterprises that have fewer than 250 employees, and have either, an annual turnover not exceeding ECU 40 million, or an annual balance-sheet total not exceeding ECU 27 million. In the same document, a 'small enterprise' was defined as an enterprise which has fewer than 50 employees, and has either, an annual turnover not exceeding ECU 7 million, or an annual balance-sheet total not exceeding ECU 5 million, and micro-enterprises as enterprises having fewer than 10 employees.

In 2003, because of the economic development, the Commission adopted a new recommendation to redefine that very important sector for the world economy. The result was a new guide in defining the SMEs [2].

The document started from the reality that, in a common market without internal frontiers, is essential that all the measures for the SMEs start from a common definition. This is more important as long as there is a strong interaction between national and EU measures regarding the regional development and research financing.

Based on the new definition, an SME is an enterprise that employ fewer than 250 persons and which have either an annual turnover not exceeding 50 million euro, or an annual balance sheet total not exceeding 43 million euro.

### 2. The evolution of the SME sector

#### 2.1. The importance of SME sector for the economy

Small and medium sized enterprises represent a balance at the micro- and macroeconomic levels. A strong SME sector generates also an adequate distribution of the economic power. Life demonstrates that within concurrent economies, the economic concentration has negative long-term effects. The SMEs may reduce the capacity of the large companies to form monopolies and oligopolies and therefore to control the markets compete by.

One main function of the SME sector is to be an important source for employment. Two thirds of the new jobs are in this dynamic sector. The costs involve in creating new jobs are much lower in case of an SME then in a large company. In addition, SMEs may reduce the fluctuation on the labour market by diminishing the unemployment.

In a turbulent economic environment, the small and medium sized enterprises adapt themselves easier, have high competitiveness and resistance levels during the crisis.

Because of their size and their simple organizational structure, SMEs can make numerous organizational strategic changes that allow them to function efficient from the economic point of view. They easy adept to the requirements of there clients and can become specialized suppliers for the large companies. The products and services provided by the SMEs are chipper then the same products and services provided by large companies.

At the European economy level, SME sector represents a source for entrepreneurial skills,

innovation, and employment. At the EU-27 level, almost 23 million SMEs generate 75 million jobs and represent 99% of the companies.

Relatively recent studies [3] reveal that 92% of SMEs are in fact micro enterprises (1 to 9 employees).

In the attempted to solve this situation, the European Commission placed the SMEs in the core of its industrial politics. EC understood that SMEs must increase there size (increase the number of employees, diversify the range of products, markets, increase there income) if they want to have a significant impact on the European economy.

The low number of hierarchical levels, the strong relations between managers and employees generate a favourable organizational climate for economic performances.

The SMEs labour climate makes possible the successful experimentation of some systems, methods, and techniques imported from the management theory. In addition, those companies offer a favourable framework for developing new management methods and procedures. Therefore, the activities of the SMEs in solving practical problems contribute to the enrichment of the management tools and to the increasing of the organizational efficiency.

The role of SMEs for the European economy was repeatedly recognised at the highest political level. In 2008, European Council strongly encouraged an initiative called *the Small Business Act (SBA)* [4] for Europe that drive at consolidation of the sustainable growth and competitiveness of the SMEs and asked for it rapid enactment.

## 2.2. SMEs before the financial crisis

In the last decade before the financial crisis start, the SME sector had a dramatically growth. Table 1 illustrates the situation of EU-27 SMEs in 2008.

Table 1. Number of companies and employees in EU-27, per category [3]

Size	Micro	Small	Medium	SME	Large	TOTAL
Companies						
No. thousands	19058	1424	226	20709	43	20752
%	91.8	6.9	1.1	99.8	0.2	100.0
Employment						
No. thousands	39630	27652	22665	89947	43414	133362
%	29.7	20.7	17.0	67.4	32.6	100.0
Employees per company						
	2.1	19.4	100.3	4.3	1006.1	6.4

Between 2002 and 2008, the SMEs from EU-27 had a strong growth and proved to be the engine of European economy. There number increased with 2.4 million (13%) comparing with the number of large companies that increased with only 2000 (5%), as shown in figure 1.

That dynamics appeared also in the number of new created jobs. During that period, the SMEs employment increased with 9% per year (9.4 million new jobs for the entire period) while the employment in large companies increased with only 0.8% yearly [3].

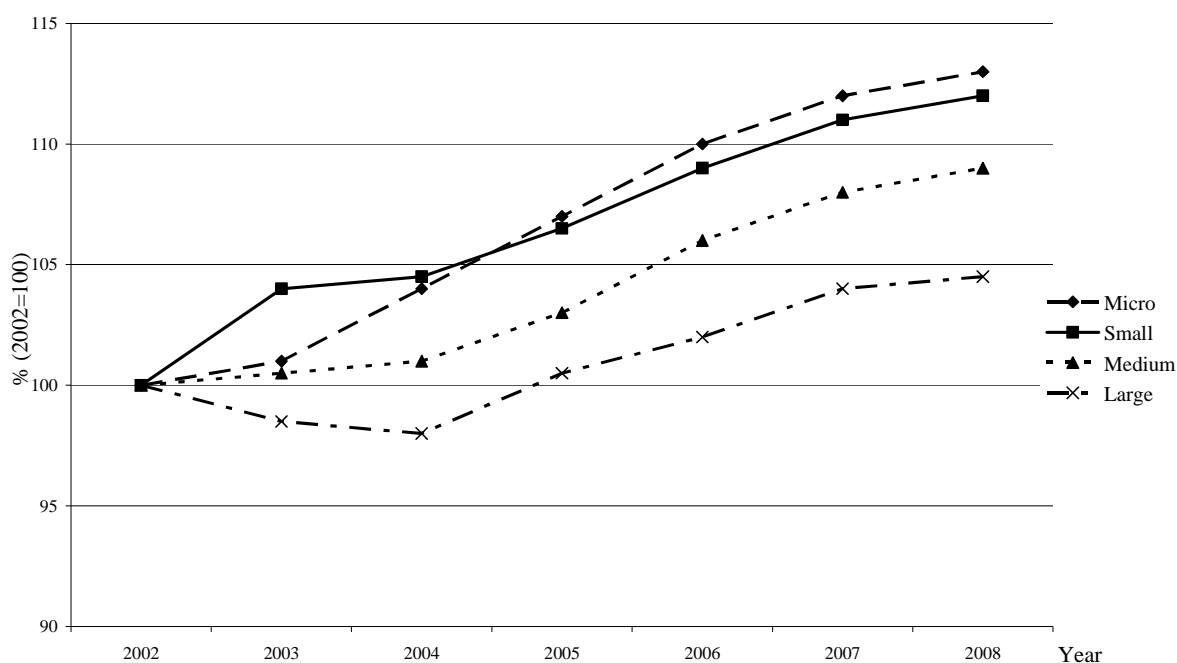


Figure 1. Dynamics of the number of enterprises, EU-27 [3]

That dynamics was a general phenomenon in all the EU member countries, old or new. In fact, there was a convergent process of the structures of SME sector of those to groups.

### 2.3. The SMEs and the crisis

The financial and economic crisis that started in 2008 stopped the SMEs growth mentioned before. The slowing-down from 2008 became a drop in 2009. The production of the SMEs belonging to EU-27 decreased with 5.5% in 2009 comparing with 2008. That phenomenon was stronger in the case of large and medium-sized enterprises comparing with micro- and small companies. The demand drop affected more than 28% of the SMEs from the Euro area in the second half of 2009.

From the preliminary data for 2010, result that, even if the production slightly increased, the low level of production volume continued to generate an important decline of the employment within the micro- and small enterprises (see tables 2 and 3).

Table 2. Dynamics of SMEs' production in EU-27, 2009–2011, annual percentage change [5]

Year \ Size	Micro	Small	Medium	SME	Large
2009	-4.6	-5.7	-6.4	-5.5	-6.5
2010 (preliminary)	0.9	0.8	1.0	0.9	1.1
2011 (forecast)	1.7	1.9	2.2	1.9	2.4

Table 3. Dynamics of SMEs' employment in EU-27, 2009–2011, annual percentage change [5]

Year \ Size	Micro	Small	Medium	SME	Large
2009	-1.0	-2.1	-3.5	-1.9	-3.9
2010 (preliminary)	-1.8	-1.8	-1.3	-1.7	-0.1
2011 (forecast)	-0.8	-0.4	0.1	-0.5	0.6

The estimations for 2009-2010 indicated a decrease of the EU-27 SME employment with 3 million jobs. The forecasts for the following years show that the SMEs strongly oriented to the domestic markets will still confront with a low demand.

Another problem SMEs confront with, even less important than the absence of demand, is the access to finance. Especially the access to finance for micro-enterprises is harder and harder. The banks are reluctant to assume risks and ask for more collateral. Probably, this problem will become more imperative for SMEs with the demand increase for goods and services.

In addition to the problems from the economic environment, SMEs faced with internal challenges. One of the most important is the low level of productivity. Some of the motives that generate differences between micro, small, medium, and large enterprises regarding productivity are the different sector orientation, the size of the capital intensity, and the level of training of there employees.

Nevertheless, is expected that the important factors that generated the growth until 2008, like internet, the growth of services sector and the institutional development that encouraged the self-employment to continue to remain relevant in the following years. Most probable, the restart of the economic growth will lead to resumption of the SMEs growth.

The increase of the number of closed companies that accompanied the recession overloaded the society with additional costs. However, this situation has also positive aspects because it created space for new or existing innovative. On long term, the enhancement of the business environment dynamics could have a positive effect on the future economic growth and on creation of new jobs.

That is why the Small Business Act must become an important tool for supporting SMEs in maintaining or regaining there competitiveness.

## 3. The SME sector in Romania

### 3.1. Romania and the economic crisis

In Romania, the economic and financial crisis strongly affected the evolution of the economy in 2009 and 2010. The business environment, especially the SME sector, knew significant changes because of the impact of the world economic crisis. Besides the demographic changes of the SME sector and the negative economic results, the crisis affected also the entrepreneurial spirit and the antipathy for risks assumption by the investors increased.

In the same time, the crisis represented a learning period for entrepreneurs, managers, employees in adapting to new situations.

The companies faced with new conditions, characterized by shortages or discontinuities of cash, deterioration of contractual relations consolidated in the period of the economic growth, and diminished of consumption and number of clients, both in the manufacturing and services sectors.

Starting the last quarter of 2008, the macroeconomic context was difficult, with negative and unpredictable evolutions that had a stronger impact during 2009, as long as the area covered by the economic and financial crisis became larger and larger. In addition, the impact of the difficult

macroeconomic conjuncture was amplified because the negative changes appeared suddenly after a relatively long favourable period for development.

Romania felt the financial and economic crisis latter then it started (August-September 2008) because the Romanian economy had a lower opening level to the world economy. Nevertheless, the crisis impact was amplified by the vulnerabilities specific to an emerging economy that did not had the necessary time to access and consolidate the cohesion and integration in the European economy mechanisms in only two years from it adherence to EU.

Thus, after 10 years of continues growth, because of a mix between world economy turbulences, crisis and internal factors, Romanian economy have a negative economic growth (-7.1%) in 2009. The explanation for this situation consists in a mix of three

major factors:

- Contraction of the domestic consumption demand,
- Withdrawal of the foreign flows of capital,
- Decay of export and import trade.

### 3.1. The crisis influence on Romanian SMEs' dynamics

Between 2000 and 2009, the Romanian SME sector grew with 51.6%, as shown in table 4.

The figures from the table indicate two period of the SME sector development – between 2000 and 2003, and between 2005 and 2008. Actual, the maximum number of registered SMEs was at the end of 2008 (662,024 enterprises).

The first demographic crisis of the Romanian SME sector from 2004 (larger then the crisis from 2009) was generate by some administrative regulations and not by economic conjuncture.

Table 4. Number of registered SMEs, 2000/2009 [6]

Year \ Size	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Micro	375804	374255	377499	417366	358787	386561	410763	431029	602711	573299
Small	29121	30340	30231	33856	36392	39128	43419	47022	49560	43724
Medium	7504	7737	7761	8147	9121	9158	9322	9577	9753	8435
Total	412429	412332	415491	459369	404300	434847	463504	487628	662024	625458

In the next four years, the SME sector knew a strong comeback that allow it to have a continue growth until the end of 2008.

In 2009, the financial and economic crisis led, for the first time after four years of growth to a decrease of the number of SMEs in Romania.

At the end of the year, the number of SMEs registered at the National Trade Register Office was 625,458 comparing with the number of enterprises at

the end of 2008 (662024). That meant a decrease of 6.5%. Even so, the level of demographic growth was superior comparing with 2007 (128.7%).

From the total number of registered SMEs at the end of 2009, only 379,627 were active (60.6%). Even if the macroeconomic features of years 2008 (the year with the greatest economic growth from 2004) and 2009 (with economic recession), the rapport between the registered and active SMEs is the same.

Table 5. Dynamics of the registered SMEs between 2007-2009 [6]

Period	2007	2008			2009		
		Sem I	Sem II	Total	Sem I	Sem II	Total
Registration	142073	76460	64182	140642	60979	55043	116022
Strike off	20401	6495	11181	17676	12037	31578	43615
Suspension	12012	7194	4825	12019	71250	62112	133362

Source: National Trade Register Office, <http://www.onrc.ro/english/statistics.php>

The evolution of SMEs between 2007 and 2009, presented in table 5 illustrates some particular aspects regarding that period.

The fluctuation process within the SME market is a natural process resulted from its feature: capitalization of new market opportunities and conjunctures, innovation, technology development, orientation towards client needs and demands. Even if this process is normal, 2009 highlighted some

particularities regarding SMEs demography.

The figures from table 5 shows indicate that during 2009 the dynamics of start-ups continued to increase but slower while the exits from market suddenly increased substantially, through strike off and temporary suspension of activities.

In 2009, over 133,000 SMEs suspend there activities comparing with only 12.000 in 2007 and less then 12,000 in 2008. It means that the suspensions

increased more the 11 times comparing with the past years. Suspension had a spectacular dynamics not only comparing with the last years but also with strike offs (in 2009 suspension of activities was 3 times greater than strike offs).

The number of strike offs in 2009 comparing with 2007 was 2 times greater, from 20,401 to 43,615. This situation had also positive influence on SME sector, because only healthy companies (active and competitive) remained in market. More than 80% from the strike offs and one third of suspensions were inactive companies.

Tables 5 shows also that the start-ups continue to in 2009 (116,000 new registered companies) even if the rhythm was slower comparing with 2008 (82.4%).

The fact demonstrates the Romanian entrepreneurial potential, on one hand and the necessity to support the development of SME sector as a solution for egression from crisis and economic revival on the other hand.

#### 4. Conclusions

Small and medium-sized enterprises continue to play an essential role in the European economy, especially because the EU countries seek for resources and solution for exit the crisis and revival there economies. SMEs represent a source for entrepreneurial initiative and innovation, which can generate new jobs that will compensate the jobs lost because of the world economy recession.

The crisis impact on the Romanian SME sector consisted of temporary suspension of activity for 133,000 companies and 43,600 strike offs in 2009 comparing with 2007. In the same time, the start-ups, even if the rhythm was slower than in the past years, continue to exist. As a whole, those changes represented a returning of the Romanian SME sector with one or two years.

In the same time, those changes in the demography of this sector reflect a renewal process that could be an opportunity for modernization and innovation.

The most affected economic sectors were the real estate brokerage, constructions, industry, and administration and support services (leasing, secretariat, services for fairs organizing, etc.), cash and carry and retail trade.

The dynamic context of assiduous quests for egression from crisis and preparing the economy for resuming the economic growth show the necessity of using innovative, knowledge based solution for the future economic development in general and the SME sector in particular.

Moreover, the features of the EU countries economies, especially the vision and the objectives assumed through Europe 2020 strategy that seek for modernization, innovation, eco-efficiency and social inclusion impose the creation of the necessary condition for a long term modelling of an economy based on knowledge and innovation.

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