

# CHARACTERISTICS OF DYNAMIC COMPANIES FROM ROMANIA. TIMIȘ COUNTY CASE

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## ABSTRACT

*The paper analyzes an ongoing research process in growth-oriented SMEs from Romanian Timiș county. Our survey based on administered questionnaires and field research about participating companies. Based on the analysis of 28 completed questionnaires we are presenting the conclusions related to the following: SMEs resources, entrepreneurs as a person, their skill, and entrepreneurial process. Growth-oriented SMEs are founded mostly by entrepreneurs with higher education, especially in the specialization field of their companies, with previous entrepreneurial experience. There are very well trained in management and entrepreneurship and they have good managerial skills, a good management team. These entrepreneurs are very market oriented, responsive to clients needs. They used an organic growth.*

**KEYWORDS:** *growth, entrepreneurial process, entrepreneur*

## Introduction

Companies, including SMEs, and their entrepreneur-managers operate into a particular economy, society and region that have some characteristics (socio-economical, political, and cultural). The SMEs are required to survive, grow and develop in the local/national environment created by different institutions, peoples, external to it. SMEs must have the ability to utilize and exploit the external environment resources and its internal potential for growth. The external environment in which business and firms are operated can be a major asset in achieving and maintaining competitiveness and can also place constraints upon firm if it does not meet their needs. The entrepreneur and the entrepreneurial process are an important key factor in rapid company growth. Creating a successful business requires successful entrepreneurs with strong entrepreneurial skills. Every success story starts with big dreams and strong motivation. In most of cases, in SMEs, entrepreneurs are their own business managers. They need to have a clear vision of what they want to achieve. But they are not dreaming alone. Their dreams became real through people, inside and outside of their companies.

## 1. Literature review

In business you cannot discover new heights unless you have the courage to leave the ground." – *Seth Godin*. Entrepreneurship is currently at the focus of much theoretical, practical and political interest in many countries including, of course, Romania. Firm

growth is a popular topic in entrepreneurship literature. Many factors from internal and external environment are affecting a firm's growth. Growth processes are different from each other firms. We know that growth is not defined and perceived uniformly by the entrepreneurs and management researchers. Researchers are talking about financial, market, organizational, strategic growth and, of course about internal and external growth.

We agreed that growth oriented firm is a company that is aiming to grow its turnover for the next 3 years at a higher rate than the average growth of the industry. The long-term consequence of this approach is that a small company will grow and become a medium-sized company. This process implies both the management of this process and the increase in the complexity of the company. Both represent very important challenges for the entrepreneur-manager of the company.

In literature we found that dynamic firms ("gazelles") are firms that have grown at least 20% (sales, profit) for each of the last three years. We have found these companies in Romania, in Timis county, in different fields.

Growth oriented companies are, for a period of time, competitive. Firm competitiveness is the basic capability of perceiving changes in both external and internal environment and the capability of adapting to these changes in a way that the profit flow generated guarantees the long term operation of the firm. There is an ongoing struggle for survival. (Chikan (2001). We argued that a firm can have an internal/external competitiveness.

Previous researchers indicated that small business development in our county has been influenced by the country's macro-economic factors (economic, political, technical, socio-cultural, legal, and others) and micro-economic factors. In related literature, we have found, at company level, several factors influencing competitiveness: quality of technology, internal infrastructure, quality of internal management, location, entrepreneur-manager's expectations about how business should evolve, firms history, firm structure, past investment decisions.

The entrepreneurial process involves all the functions, activities, and actions associated with perceiving opportunities and creating organizations to pursue them. (W. Bygrave). Entrepreneurial process is influenced by the personal, sociological, and environmental factors that give birth to a new enterprise.

Entrepreneurs have a higher locus of control than non-entrepreneurs, which means that they have a higher desire to be in control of their own fate. This has been confirmed by many surveys which have found that entrepreneurs indicated that being independent is their main reason for starting their businesses.

Some researchers proved that some personality traits are relevant in growth process, too.

The purpose of our research was a better understanding of the characteristics of entrepreneurs managing dynamic companies, in small and medium sized enterprises from Timiș county.

## **2. Methods**

Our research is based on the following assumption: the entrepreneur's profile and competency are key factors in successful dynamic companies. The research method included mail telephone, survey, personal interviews of small business owners.

The sample included only active companies with official income statement and balance sheet. We have selected a number of 28 SMEs from Timis county. These SMEs have more than 5 years experience. In our sample, we have found firms with more than

10 years of experience in business world (30% from all questioned firms). The companies questioned were from different fields:

- services, 72%
- production, 18%
- construction, 5%
- others, 5% .

These companies are in front of first 50% of competitors. We used an explorative research. We have administered questionnaires and field research including interviewing the entrepreneur (in some interesting cases). We used a official companies database from Timis county. We included focus questions about entrepreneurs (abilities, education, entrepreneurial experience, training, managerial skills) and their firms.

The questionnaire, (we sent them this questionnaire) has 23 pages, 6 sections (with subsections) and 111 questions. The first section contains information about founder, firm, field, employers, turnover (basic information). The 2nd section (the entrepreneur) contains information about the entrepreneur: education, training, experience, motivations to start a business, succes factors. The 3rd section (companies profile) contains information about human, physical, financial resources, companies performance. The 4th section contains information about business environment. The last section contains information about entrepreneurship and ethics. This questionnaire was used in a previous research of a finished grant about SMEs competitiveness, directed an managed by prof. Bibu Nicolae, PhD. In this paper we have focused out analysis on the first and second section of the questionnaire.

After we have analyzed the preliminary data, the questioned firms were divided in two categories: the first category included growth oriented SMEs (continuously growth of turnover and profits) and the second category included SMEs with some growth problem (their managers want to grow but their firms is in a stagnation period). We have identified a group of growing companies, small and medium, that are achieving strong performance, (financial performance) better than the average of the group.

We received questionnaires and processed them through SPSS program. We did an explorative research. We focused our attention on entrepreneurs (abilities, education, entrepreneurial experience, training, managerial skills) and their firms. Our supposition is that successful entrepreneurs possess a combination of personal traits, entrepreneurial skills, motivation, that help them to initiate and to well manage the entrepreneurial process. Growth-oriented SMEs are managed by entrepreneurs-managers with proactive behaviour.

Our approach is that SMEs should be able to detect and adapt to specific changes in the environment and within the company by way of meeting competitive market criteria, permanently more favourable than their rivals.

Hypothesis:

- Successful entrepreneurs possess a combination of personal traits, managerial skills, motivation, that help them manage their business;
- Dynamic companies have something in common;
- Dynamic companies are performant above average.

#### **4 Results**

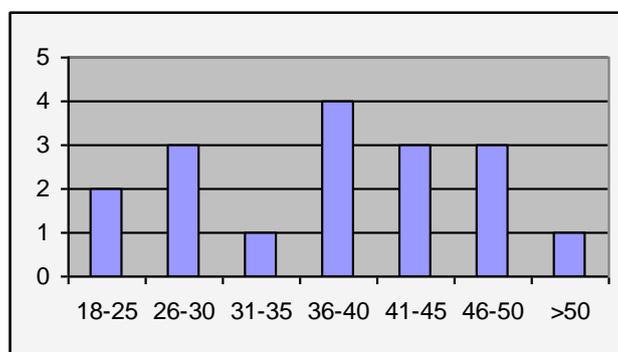
In our study (companies from first category) turnover was growing in the last 5 years, and the profitability rate was 18% (per all) with some diferencies: IT, (40%), production firms (18%), constructions (12,5%), trade (16%). It is important to discuss about growth process. These results were posible through a combination of factors including internal (managerial skills, good team, good management process) and external factors

(growth demand for their products in local markets, growth in population buying power, opportunity for investments financing, infrastructure modernization). In the last 5 years, excepting 2009, it was a time for growth. The net profit grew continuously, and the average rate was 9.55%/year. These firms possess internal competitiveness (Bibu, Sala, 2008). For 2009 year, they have estimated a decrease in sales, turnover and profits. Our assumption is based on processed information about their profits (there were able to earn profit), their market share (the majorities of questioned enterprises are in front of first 50% of competitors), their capability of perceiving changes in both external and internal environment and adapting in short time to these changes, their ability to maintain their financial equilibrium.

The entrepreneur is the key factor in the entrepreneurial process and in the growth firm process in our study, from gender point of view 66,7% from entrepreneurs are men. Are men more successful entrepreneurs than women in this county? It is hard to say that but as we know from previous studies, this factor is not relevant for business success. In the last years, in Timis county, the percentage of women who become entrepreneurs is increasing.

About the entrepreneur's position in their company, all of them are owners, all of them are also managers in their company, in most of cases they are top managers.

According to age, 23,5% from questioned entrepreneurs-managers are between 36-40 years; under 40 years 59%; above 40 years were 41% (see Figure 1).



**Figure 1 Entrepreneurs by age**

Entrepreneurs are different and we can say that they have different behaviour concerning company growth. The entrepreneurs from the first categories (continuously growth of turnover and profits) have the ability to exploit opportunities for growth, faster than the others entrepreneurs. They have also an entrepreneurial behaviour, being able to rapidly recognize the need for innovation or for some changes in their firms and act of them. In all questioned SMEs, we found that entrepreneurs were mature people.

Education is a very important factor in business but as we know, is not so relevant for start up companies. People with some entrepreneurial education are more prepared to exploit opportunities than others. Education in business and management will be very important, in the next few years, in the case of growth-oriented companies. 60% from questioned entrepreneurs have higher education and only 3% have post graduate school. Higher education helps people to understand quickly the business environment, market economy laws, contribute to forming and developing a systemic thinking very useful for management process. We agree that "an entrepreneur who can design a great product but cannot manage employees, time, inventory, or finances will not be able to run a successful business". The types of knowledge that entrepreneurs need cover a wide range of topics.

Management knowledge is essential and helps them to understand the growth process of a firm.

Concerning specialization, 60% from questioned entrepreneurs have technical studies, 34 %, economics studies, 6% others. Specialization seems not to be a relevant factor for business success in our sample. We did not also identify that entrepreneurs with economics studies are more oriented towards growth than others.

96% of entrepreneurs have worked in private companies and state owned companies before starting their own business. 63% of them were in top positions and all of them have had managerial responsibilities. 90% of them had a previous job in successful companies and were inspired by them. All SMEs managers had the desire to grow.

We found that the main motivational factors for starting a business were: financial independence 96%, being own boss 100%, and prestige 84%. Some researchers in entrepreneur psychology argued that some entrepreneur have, from the beginning of entrepreneurial process, the desire to grow their business. They are very growth oriented entrepreneurs-managers. We found this to be true in 22% of cases. The business success depends on internal and external factors. All of questioned entrepreneurs said that success factors for their business are:

- ✓ product quality, 33%;
- ✓ organizational skills, 27%;
- ✓ good relationship with clients, 27%;
- ✓ personal networking, 18%;
- ✓ good marketing, 12%
- ✓ innovation 6%.

Their perception about local competition is the same: it is very strong and it will be very strong. New entrants are expected to appeared in their fields. Concerning their business and ethics, all of them said that there are not problems with ethics.

Our studied companies have internal competitiveness: able to strive in the Romanian market. Their products are sold in domestic market. For 2009 year, they estimated a decrease with 10-20% in sales, turnover, profits

## 5. FINDINGS

We consider that the quality of the entrepreneurs are influencing entrepreneurial process. The quality of entrepreneurial process is a factor which differentiate growing firms from the non-growth businesses. The education and the mindset of the entrepreneurs is influencing the managerial process.

The factors that differentiate growing businesses from non-growth companies include mainly dynamic variables. The main factors identified as important for continuously growth were the following:

- ⇒ improvement of managerial skills;
- ⇒ distribution channels;
- ⇒ cost reducing;
- ⇒ modernization of technology;
- ⇒ growth in production capacity;
- ⇒ improvement of people motivation.

Just having higher education is not sufficient to achieve success. All of entrepreneurs agree that managerial skills are very important. These are developed through experience in managerial jobs and training. We found that growth oriented firms were

managed by proactive not reactive managers. Successful entrepreneurs-managers make good decisions, have an attitude for growth, have a good team, use primarily their own resources. They have identified an opportunity to grow, decided to exploit it. They have created conditions for growth and are very close to customers and responsive to their needs.

All of the entrepreneurs found that developing fast can create problems in the future of their firms (risks to be met).

Many firms are fast because they are proactive in perceiving and exploiting an opportunity. They are using favourable trends and want to be dynamic. Most of the growth oriented firms have invested in human resources. Attracting qualified people for key positions are a priorities for managers.

**Research limitations/implications** are the following:

- The study is restricted to only entrepreneurs characteristics;
- We did not focused on a specified domain.

The most important implication of the study is that analysing growth should concentrate on the dynamics of firm development rather than on static characteristics of the entrepreneur or the firm

## 6. Conclusions

According to our observations, the growth process differs between firms, but still they had certain similarities. Entrepreneurs have the desire to grow their business. They actively look for opportunities to grow. Most of the companies had chosen organic growth strategy but some had grown also externally. Growth-oriented firms are very strong market oriented and very opened with clients. In these SMEs, entrepreneurs have a strong motivation to grow, some of them from the beginning of the business. All the growth-oriented firms had been profitable before they started to grow. We also noticed that the board of directors of these SMEs, made of professional management had an important role in explaining the success in managing the growth process.

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