

IMPACT OF ECONOMIC CRISIS ON SMEs

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ABSTRACT

The world economic crisis started in 2008 was also felt in Romania. Most specialists believe that it is a major international economic crisis, with multiple negative effects on the world economies. The purpose of this item is to reveal few findings of an extensive empirical research of SMEs made in 2009, regarding dynamics of the activity of SMEs during October 2008 - March 2009, psychological impact of economic crisis on entrepreneurs, opinions regarding the peak of the crisis and entrepreneurs' perceptions related to the Government's capacity to combat the economic crisis. The research has been conducted on a sample of 1099 SMEs – micro, small and medium sized firms - operating in all economic sectors, covering every age category and each of the eight development regions, being considered as representative for the Romanian SMEs' situation.

KEYWORDS: *SMEs, entrepreneurs, crisis, dynamics of the activity, psychological impact, peak of the crisis, government*

1. Dynamics of the activity of SMEs during October 2008 - March 2009

Highlighting the impact of national/international economic recession on the activity of Romanian SMEs has a special significance. The research shows that during October 2008 - March 2009, more than half of the SMEs (57.58%) reduced their activity, 23.39% of companies operate at the same parameters, 14.80% of firms went bankrupt, and 4.23% of economic agents had an ascendant evolution. See figure 1.

It can be drawn the conclusion that a significant part of small and medium Romanian enterprises deal with special problems. Like in other countries in the world, they have hardly dealt with the economic crisis until now, which can be explained by the fact that SMEs are generally more vulnerable at contextual turbulences than big companies.

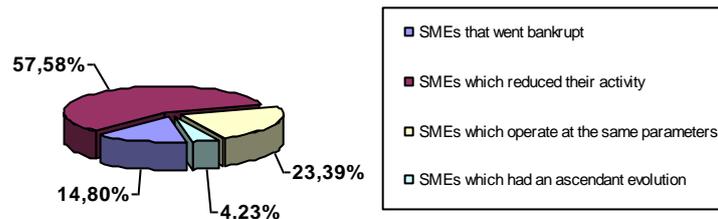


Figure 1 Dynamics of the activity of SMEs during the period October 2008 - March 2009

The classification of SMEs by size categories (table 1) shows the following:

- Bankrupts are registered inversely proportional to the size of the companies, and the percentage of SMEs that restricted their activities increases simultaneously with the increase of their size. Somehow surprising at first sight, this situation is explained by the fact that, usually, the increase in the size of the organization leads to the diminution of its vulnerability to nefarious contextual evolutions, as well as to the reduction of flexibility, of its capacity to quickly adapt to the changes of the business environment;
- Small enterprises hold an increased weight of companies that developed their activities (5.03%) and register an inferior percentage of units functioning at the same level (21.50%).

Differentiation of the activity dynamics of companies by their size

Table 1

No.	Dynamics of the activity of enterprises during the period October 2008 - March 2009	Size of companies		
		Micro-enterprises	Small enterprises	Medium enterprises
1.	SMEs that went bankrupt	15.15%	14.87%	12.75%
2.	SMEs that reduced their activity	55.98%	58.61%	63.19%
3.	SMEs operating at the same parameters	24.63%	21.50%	22.03%
4.	SMEs that intensified their activity	4.24%	5.03%	2.03%

The analysis of economic agents by their field of activity highlights the following important aspects: SMEs in the tourism sector hold the highest share of companies that restricted their activity (72.31%); organizations in the industrial sector register an increased share of enterprises that went bankrupt (17.71%); companies in the transport sector register a higher percentage of entities functioning at the same parameters (28.82%), and enterprises in the services sector contain more economic agents that developed their activities (7.01%). Additional information is contained in table 2.

Dynamics of the activity of SMEs by activity sectors

Table 2

No.	Dynamics of the activity of SMEs during the period October 2008 - March 2009	SMEs by activity sectors					
		Industry	Constructions	Trade	Tourism	Transports	Services
1.	SMEs that went bankrupt	17.71%	10.15%	14.96%	15.38%	11.18%	15.04%
2.	SMEs that reduced their activity	58.47%	60.60%	58.23%	72.31%	54.12%	54.16%
3.	SMEs operating at the same parameters	20.61%	24.78%	23.81%	9.23%	28.82%	23.80%
4.	SMEs that intensified their activity	3.21%	4.48%	3.01%	3.08%	5.88%	7.01%

2. Psychological impact of economic crisis on entrepreneurs

Taking into consideration the fact that the psychological dimension of the crisis has a major impact on the performance of economic activities, it is important to have a view on the extent to which Romanian entrepreneurs are psychologically influenced by the recent drastic recession. The research showed that 42.92% of entrepreneurs are threatened by the crisis to a medium extent, 27.26% of them are affected to a small extent, 24.22% of businessmen feel the economic decline to a large extent, and 5.60% of persons are not afraid. See figure 2.

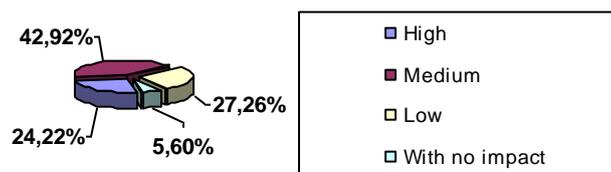


Figure 2 Psychological impact of the economic crisis on entrepreneurs

Taking into consideration the size of companies, it is mainly noticed that:

- medium enterprises hold the highest share of decision factors that do not feel affected by recession (5.74%);
- the frequency at which entrepreneurs are affected by the crisis on average gets higher proportionally to the size of enterprises;
- micro-companies register the highest percentages as regards businessmen that see the economic crisis as a major impediment (25.30%) and those that are psychologically affected to a small extent (28.92%).

Details can be seen in table 3.

Psychological impact of the economic crisis on entrepreneurs by the size of SMEs

Table 3

No.	Psychological impact of the crisis on entrepreneurs	Size of companies		
		Micro-enterprises	Small enterprises	Medium enterprises
1.	High	25.30%	22.86%	22.95%
2.	Medium	40.10%	46.29%	46.72%
3.	Low	28.92%	25.43%	24.59%
4.	No impact	5.68%	5.43%	5.74%

The analysis of the way in which the crisis is affectively perceived, by the performances obtained by SMEs in 2008 as compared to 2007 (table 4), shows the fact that the entrepreneurs with superior results feel the severe economic decrease to a smaller extent as compared to those with inferior and identical performances, which can be explained by the safety due to a better financial situation.

Differentiation of the influence of economic crisis on entrepreneurs by performances obtained in 2008 as compared to 2007

Table 4

No.	Psychological impact of the crisis on entrepreneurs	Performances of the company in 2008 as compared to 2007		
		Superior	Identical	Inferior
1.	High	20.95%	21.25%	39.36%
2.	Medium	44.49%	43.60%	38.30%
3.	Low	28.94%	27.79%	20.21%
4.	No impact	5.62%	7.36%	2.13%

3. Entrepreneurs' opinions regarding the peak of the crisis

As it is already known, national and world economic evolutions have a cyclic character, the increase/expansion periods alternating at various time periods with stagnation, recession and sometimes even crisis periods. Economic crises often evaluate in "U" shape, which means that after a decrease it takes a certain period until the economic increase begins. As regards the current economic crisis, there are many opinions of specialists regarding its peak, internally as well as internationally. Taking into consideration the entrepreneurs' opinions regarding the crisis peak in Romania, the situation is as follows: 58.40% of businessmen estimate that the maximum level of the crisis will be reached in 2009, 34.09% of the researched persons believe that the peak will be in 2010, and 3.85% of them forecast a maximum point in 2011. Detailing the opinions by quarters shows that 24.70% of entrepreneurs forecast that the highest intensity of the crisis will be in the 3rd quarter of 2009, 21.25% of the persons believe that the recession peak will be in the 4th quarter of 2009, 16.40% of businessmen anticipate a maximum level in the 1st quarter of 2010, and 11.17% of the researched persons consider that the peak will be reached in the 2nd quarter of 2010. Most entrepreneurs are considered quite optimistic as regards the duration of the economic decrease in Romania, due to internal evolutions as well as to economic forecasts of the International Monetary Fund, World Bank and other international famous bodies, according to which the economies of the USA and Europe will recover in 2010 after the strong decline in 2009. Additional information is presented in figures 3 and 4.

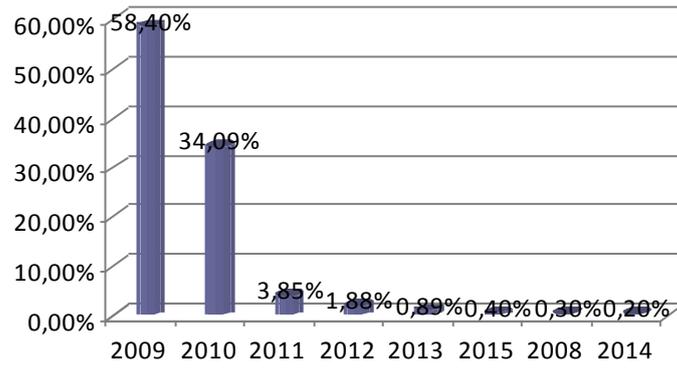


Figure 3 Entrepreneurs' opinions regarding the peak year of the crisis

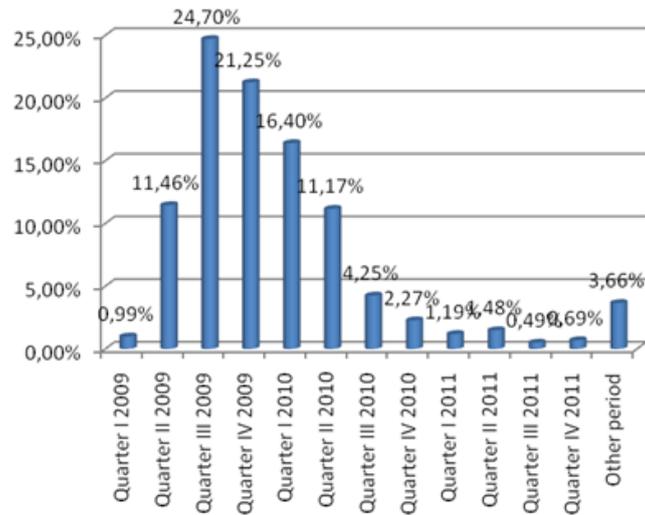


Figure 4 Detailing the entrepreneurs' opinions regarding the crisis peak by years and quarters

If we group the SMEs by size categories (see table 5) we mainly notice that:

- businessmen estimating that the recession will reach the highest level in 2009 are more frequent within medium companies (60.17%);
- micro-enterprises hold the highest weight of persons who estimate that the crisis peak will be reached in 2010 (35.84%);
- small enterprises register more entrepreneurs believing that the maximum level of the crisis will be in 2011 (6.51%) and after 2011 (6.21%).

Differentiation of entrepreneurs' opinions regarding the year when the crisis will reach its peak, by the size of SMEs

Table 5

No.	Year when the crisis will reach its peak	Size of companies		
		Micro-enterprises	Small enterprises	Medium enterprises
1.	2009	59.32%	55.92%	60.17%
2.	2010	35.84%	31.36%	33.05%
3.	2011	2.51%	6.51%	2.54%
4.	Other period	2.33%	6.21%	4.24%

4. Opinions regarding the Government's capacity to combat the economic crisis

During the recession/economic crisis periods, the government of every country has a major role in combating the negative effects and in the economic reinvigoration, by elaborating and applying firm programs based on internal and external economic realities. The Romanian anti-crisis program, containing a large package of fiscal measures to reduce specific, budgetary expenses etc. aims at re-launching the economic growth and supporting the business/investment environment in order to create jobs and protect the population/social categories disadvantaged by the effects of the economic crisis.

The analysis of the entrepreneurs' opinions regarding the government's capacity to contribute to the quick exit from the crisis (figure 5) shows the following:

- 43.97% of entrepreneurs believe that the state body exercising the executive power has a reduced power to deal with the crisis;
- About a quarter of (25.86%) them believe that the Government has a medium potential;
- 22.51% of SMEs estimate that the government does not have the possibility to quickly combat the economic decline;
- only 7.66% of the researched persons declared that the government had increased capacity to combat the recession;

It can be noticed the reduced share of entrepreneurs who trust the government's potential to contribute to the economic recovery, which can be explained by the insufficient coverage of the anti-crisis measures adopted and by the fact that the most famous economists in the world have not yet managed to find solutions to exit the world crisis.

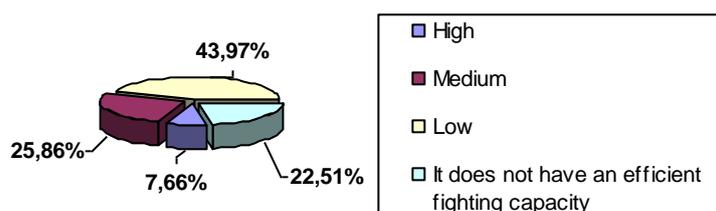


Figure 5 Entrepreneurs' opinions regarding the Government's capacity to contribute to quick exit from crisis

Differentiation of the analysis by the size of SMEs (table 6) highlights the following aspects:

- the number of entrepreneurs estimating that the government has a reduced capacity to quickly contribute to the economic re-launch increases proportionally to the size of organizations;
- the percentage of companies that see the government as lacking the potential to combat the recession varies inversely to the size of companies;
- small SMEs register the highest weight of companies estimating that the government has the power to quickly combat the crisis (9.60%), and register a lower percentage of entrepreneurs believing that the executive power has a medium potential (23.16%).

Entrepreneurs' opinions regarding the Government's potential to contribute to the fast combat of crisis, by the size of SMEs

Table 6

No.	Government's capacity to contribute to quick exit from the crisis	Size of companies		
		Micro-enterprises	Small enterprises	Medium enterprises
1.	High	7.26%	9.60%	4.84%
2.	Medium	26.35%	23.16%	31.45%
3.	Reduced	42.23%	45.20%	46.77%
4.	No capacity	24.16%	22.03%	16.94%

Concluding, the research findings reveal that during the period October 2008 - March 2009 more than half of the SMEs (57.58%) reduced their activity, 42.92% of entrepreneurs feel threatened by the economic crisis to a medium extent, 58.40% estimate that the maximum level of the crisis will be reached in 2009 and 43.97% of entrepreneurs believe that the Government has a reduced capacity to quickly deal with the crisis.

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