

# THE SMEs PERFORMANCES EXPLAINED THROUGH INFLUENCES OF THE ECONOMIC CONTEXT. STUDY CASE: ROMANIA

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## ABSTRACT

*Small and medium-sized enterprises (SMEs) are the most dynamic and vital factor of progress in the contemporary society, main generator of economic performance and substance in any country, employment opportunity provider for most of population, major contributor to the national budget, and engine to improve the living standard of the population. SMEs represent 99% from all enterprises, drawing up the main human resource agglomeration.*

*The higher flexibility of SMEs, the permanent contact of the entrepreneur with the organization, the capacity of producing goods and services to satisfy different needs and demands, the organizational environment favourable to change and innovation represent the elements that explain higher performance of the SMEs sector.*

**KEYWORDS:** *Small and medium-sized enterprises, macroeconomic indicators, performances, Romania*

## The Small and Medium-Sized Enterprises (SMEs) from Romania

During 1990-1992, industrial production and productivity slightly fell and unemployment rate sluggishly increased. In the next few years, 1993-1995, industrial production and productivity values grew, the unemployed level has stabilized, correlated with relatively significant development of SMEs, although such organizations were not in the forefront of legislative and executive attention.

Between 1996-2000, the number of established SMEs reduced, simultaneously to increasing activity reducing decisions. Causes that have contributed to this undesirable evolution were the unfavorable general economic situation and refuse of according special treatment of SMEs, in order to encourage conducting business.

After 2000, SMEs have experienced an upswing, by having a favorable macroeconomic environment as background: recovery of industrial activity, rapid growth of service sector development, construction and trade domains dynamics, increase of domestic and foreign investment, faster imports growth compared to exports growth, and strengthen economic connections between the Romanian economy and the European Union's economy (Romanian Government SMEs Annual Report, 2007).

The following consequences refer to the SMEs sector development: number of SMEs in Romania increased with approximately 20-35 thousand annually; technical and massive imports of high technology have encouraged SMEs major refurbishment; modern management, marketing and financial approaches have proliferated; new forms of SMEs (clusters, networks of firms, industrial parks, spin-offs) have appeared; use, on a wider range of activities, of modern electronic forms (e-commerce, e-banking, e-learning) has noticeably increased.

It is widely recognized the fact that SMEs became the most generous source of employment supply, both in Romania and in Western countries. But considering SMEs only as means of absorbing workforce, would significantly reduce their role in the economy and society. SMEs play an essential role to foster a culture of competition based on higher flexibility and productivity. Widening the angle of approach, SMEs promote individual and organizational behavior change (Romanian Government SMEs Annual Report, 2007).

### **General View upon Romanian Economy in 2004-2009**

The main macroeconomic indicators to outline the economic and social context in which SMEs operate, are presented in Table No. 1.

Annual GDP growth was significant up to 2008, higher than the average European Union level; furthermore, these positive results were recorded as a result of particular SMEs contribution, representing a dynamic sector, that, in spite of pessimistic appreciations, manages to continually develop and adapt to the requirements of a functioning market economy.

The process of sustainable economic growth, installed since the country preparation for The European Union's membership, has continued the positive evolution, although not at the same rates and allowances as in the years prior to accession. Thus, in 2007, GDP grew of 6%, compared to 7.9% level achieved in 2006; despite lower economic growth achieved in 2007, the economic development was characterized as stable, healthy. Values of macroeconomic indicators in 2008 confirm the hypothesis (annual growth rate of GDP is 7.1%, GDP per capita and reaches the highest value in the last five years, of 23,440 lei per capita).

The main growth influence factors continued to increase domestic consumption of goods and services and increase of investment flows to Romania, especially in the first semester of 2007, as shown in The Romanian National Bank's Annual Report, referred to as the main source of macroeconomic data.

Severe and highly synchronized reduction of global economic activity had effects in the main macroeconomic developments in Romania: annual GDP growth turned sharply negative in 2009, which seriously affected both public and private sector: the number of layoffs increased by 4.4% (approximately 212,000 people became unemployed in 2009), a number of SMEs (especially microenterprises) were vanished (the number of SMEs has decreased by about 10%). The budget deficit increased by 47.65% (in 2009 compared to 2008, the budget deficit turned

from –24 654,9 million lei to –36 400,6 million lei). The value of imports and exports declined as a result of global economic context pressures and negative Balance of Foreign Trade value reduced to –6 754 million Euro, the lowest value recorded since 2005.

Inflation rate, measured by consumer price index, has continuously decreased after 2000, reaching its lowest level in recent history (i.e. 4.9%) at the end of 2007, compared to 6.6% value of the previous year. This fact reinforced the tendency installed approximately three years ago, meaning the level of a single-digit before the comma inflation, and reducing the difference between Romania and the level of the other European Unions country members. After an increase of 1.4% in 2008, explained by higher incomes and increased consumption, the inflation rate reached 4.74% in 2009, due to lower domestic consumption and due to state intervention in the economy.

In 2007 and 2008, unemployment rates maintain at a stable level of 4.1% - 4.4%, correlated with economic growth; redundancies in the past year announced emerging economic and financial crisis, slumped the value at 7.8%, the highest rate since 2004.

Macroeconomic indicators data, represented in Table No. 1, outline the two major economic events in the considered period: firstly, economic and social context have been favorable, encouraging SMEs development; secondly, the SMEs development has generated benefic economic effects throughout the economy.

**Evolution of Main Macroeconomic Indicators of Romania, between 2004-2009**

**Table 1**

<b>Indicators</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
<b>Total GDP (million lei)</b>	246 469	288 176	344 536	404 709	503 958,7	467 673
<b>GDP Annual Growth Rate (%)</b>	8,5	4,4	7,9	6,0	7,1	-7,2
<b>GDP / capita (lei / capita)</b>	11 018	13 327	15 962	18 791	23 440	21 752
<b>Inflation Rate (%)</b>	11,9	9,0	6,6	4,9	6,3	4,74
<b>Employed Population (thousands persons)</b>	9 158	9 147	9 313	9 353	-	-
<b>Employees (thousands persons)</b>	4 469	4 559	4 667	4 720	4 806,0	4 594,6
<b>Private Sector Employees (thousands persons)</b>	2 259	2 575	2 726	-	-	-
<b>Unemployeers (thousands persons)</b>	558	523	460	368	403,4	709,4
<b>Unemployment</b>	6,3	5,9	5,2	4,1	4,4	7,8

Indicators	2004	2005	2006	2007	2008	2009
<b>Rate (%)</b>						
<b>Foreign Trade Balance (million Euro)</b>	-5 323	-7 806	-11 759	- 17 586	-18 372	-6 754
<b>External Debt (million Euro)</b>	18 298,0	24 641,5	28 628,5	36 728,2	51 761,8	64 207,7
<b>Budget Excess / Deficit (million lei)</b>	-3 693,3	-2 268,4	-5 099,8	-9 448,9	-24 654,9	-36 400,6

Source: <http://www.bnro.ro/Publicatii-periodice-204.aspx>, Monthly Form December 2009, accessed in the 29<sup>th</sup> of March 2010

### SMEs and The Economic and Financial Crisis

The concept of performance is reflected in the literature with different meanings, for instance: successful result of an activity, action, and economic, with the meaning of profitability, productivity, efficiency (Vâlceanu, Robu, Georgescu, 2005).

Performance refers to superior results achieved by businesses (i.e. SMEs) at a specific moment of time (2009), compared to the previous period.

In 2009, the majority of SMEs, for all kinds of size, recorded lower performance than in 2008 (with values between 54.38% to 62.10% for micro and medium enterprises). In this case, the highest percentage relates to medium-sized enterprises for, as logical approachment, the performance of a medium enterprise (either higher or lower) is generally larger than the performance of a microenterprise.

Approximately 30% of SMEs recorded similar performances, while only about 13.8% of SMEs were able to increase their results in 2009.

As shown in Table No. 2, the results recorded by SMEs are predominantly negative ones, with implications for human resources working in these enterprises.

Over half of SMEs have reduced activity in 2009 compared to 2008, approximately 20% of them maintained their activity at the same parameters (for each of the three types of SMEs), while 5% have able to record superior results in their activity. A percentage between 12.75% and 15.15% for medium to micro, no longer on the market resistant employing and went bankrupt.

Reduced resistance to external factors caused by SMEs small dimension generate a higher proportion of enterprises who went bankrupt in 2009, compared to the other two types: small and medium enterprises.

**SMEs Performances in 2009, Compared to 2008, on Size Classes**

Table 2 %

	SMEs Performances in 2009, compared to 2008	Enterprises		
		Micro (0-9 employees)	Small (10-49 employees)	Medium (50-249 employees)
1.	<b>Superior</b>	13,87	13,83	13,71
2.	<b>Identical</b>	31,75	30,55	24,19
3.	<b>Inferior</b>	54,38	55,62	62,10

Source: SMEs White Charter 2009, p. 142

Efficiency and profitability of SMEs can be measured using several economic indicators, of which the most relevant is the level of productivity, defined as the ratio between turnover and number of employees. Moreover, the growth performance of the SMEs sector regarding the issue of economic efficiency and competitiveness represents a constant concern of the European Union, also illustrated by the strategic directions for action to support the emerging private sector development.

Reducing the number of employees is a direct factor of influence for increased productivity. Therefore, two courses of action can be considered towards increasing productivity, both extensive and intensive; the extensive course obtained by replacing and renewing technology, and the intensive course refers to gaining skilled personnel through training and restructuring activities.

**SMEs Activity Dynamics in 2009, Compared to 2008, on Size Classes**

Table 3 %

	SMEs Activity Dynamics in 2009, Compared to 2008	Enterprises		
		Micro (0-9 employees)	Micro (0-9 employees)	Micro (0-9 employees)
1.	<b>SMEs that went bankrupt</b>	15,15	14,87	12,75
2.	<b>SMEs that have reduced their activity</b>	55,98	58,61	63,19
3.	<b>SMEs that have maintained their activity</b>	24,63	21,50	22,03
4.	<b>SMEs that have developed their activity</b>	4,24	5,03	2,03

Source: SMEs White Charter 2009, p. 158

Average annual productivity expressed by turnover per capita of the SMEs sector amounted to 41,456 Euro/employee in 2009, compared to 27,823 Euro/employee in 2004. Productivity amounts to 38,957 Euro/employee for microenterprises, 49,998 Euro/ employee for small enterprises and 54,125 Euro/employee for medium ones, while the SMEs total average value is 41,456 Euro/employee.

Considering the structure size classes, the highest level of productivity in Romania was recorded by medium-sized enterprises, meaning up to 30% above the SMEs sector average value. Moreover, as represented in Table No. 4, productivity of 49,998 Euro/ employee level was above the average of overall sector.

**Productivity per Capita, per Total SMEs Sector, on Size Classes**

**Table 4 Euro / employee**

<b>Enterprises</b>	<b>2004</b>	<b>2006</b>	<b>2007</b>	<b>2009</b>
<b>Micro (0-9 employees)</b>	26 592	32 304	39 500	38 957
<b>Small (10-49 employees)</b>	30 984	42 051	50 786	49 998
<b>Medium (50-249 employees)</b>	25 894	41 685	54 136	54 125
<b>TOTAL</b>	<b>27 823</b>	<b>33 406</b>	<b>41 183</b>	<b>41 456</b>

**Source:** [http://www.mimmc.ro/files/Raport\\_Anuar\\_IMM\\_2008.pdf](http://www.mimmc.ro/files/Raport_Anuar_IMM_2008.pdf), accessed in the 06<sup>th</sup> of April 2010, own calculations (exchange rate Lei/Euro has been considered 3,52 in 2006, 3,34 in 2007, 10 in 2009)

**Conclusions**

All these considered, key changes involving the transition to a competitive SMEs sector should take into consideration the following:

- creating and implementing human resources development strategies of SMEs, as a prerequisite to increase their performance in the new socio-economic context. SMEs tend to give greater importance to human resources than larger organizations, because of the simplified hierarchical structure, which promotes greater interaction between management and execution personnel, and, furthermore, higher interest and commitment of organization employees;
- supporting innovation in SMEs, argument sustained by increasingly development and implementation of scientific progress. Innovative characteristics of SMEs should be harnessed and transformed into a competitive advantage in all sectors;
- funding research and development from the state budget to address some of the issues facing SMEs. Currently, there is a gap between the contribution that SMEs have to GDP formation and the benefits received to be allocated for research and development.

Unlike larger organizations, SMEs enjoy a number of advantages, such as small number of employees, which facilitate communication and propagation of

change within the organization, a smaller proportion of total tangible assets, economic and relatively simple management, adaptability and flexibility to changing external environment, entrepreneurial spirit, faster growth, development potential, but more intense interpersonal relationships and greater cohesion.

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