

# The Evolution of Romanian SMEs Performance – Multi-year Analysis between 2011 and 2015

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## **Abstract**

*Evaluating an indicator has always been the first step needed in order to assure the improvement of that certain indicator. Having this principle in mind, the current paper aims to analyse the evolution of performance within Romanian small and medium-sized enterprises, between 2011 and 2015. In order to assure a relevant and correct evaluation, the analysis was carried taking into account multiple key performance indicators: number of employees, volume of receivables, volume of provider liabilities, volume of sales and amount of profit. The most significant result of the analysis refers to a general improvement of the performance of Romanian SMEs in the five years of analysis, with a peak of performance in 2015. The synergy of positive results registered in the multiple areas that were analysed resulted in a positive evolution of the most important KPI of an economic organization: its profit.*

**Keywords:** *Economic Performance, Entrepreneurship, Key Performance Indicators, SMEs.*

**JEL classification:** L25, L26, M10, M13.

## **1. Introduction**

Addressing any issue in a scientific manner requires, firstly, the development of certain conceptual delimitations on the items that will be analysed during the research. Thus, given the theme of this paper and its objectives, the most significant concepts in terms of performance in organizations, on a general scale, and in SMEs, in particular, will be henceforth presented. The first section of this chapter will be aimed at the analysis of the state of knowledge upon performances in organizations, while the second section will highlight knowledge upon small and medium-sized enterprises and their most significant characteristics.

The general concept of efficiency (Nicolescu et al., 2011, p. 220), can be defined as a situation characterized by positive outputs of a system that are superior to the entries made in that system. Its existence reflects the high quality of the management system within that certain organization. Managerial efficiency reflects the link between the economic and social usefulness of the work of an organization and the effort realised within it. Rating managerial efficiency is a difficult process, which

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should aim to include the analysis of several categories of factors - technical, economic, social, politic and other types of factors. This approach provides the fact that managerial efficiency is dynamic and complex.

In a general approach (Nicolescu et al., 2011, p. 219), effectiveness highlights the capacity of an action to achieve the desired results. Effectiveness at the organizational level is the ability of an economic entity to provide an organizational framework to obtain the desired effects or results of that entity. The effectiveness of managers is the characteristic of their work which illustrates the ability to obtain the desired effect, namely to achieve their individual objectives. Its level is strongly influenced by the work made by managers and by the rationality of decisions they take within that organization. The effectiveness of managers is directly linked to their professionalism and their leadership potential.

Performance is, in a general sense, a notable, better result obtained by a person or group of persons in a particular field or in the course of an activity. From the organization perspective, performances are excellent results obtained in a specific area of an organization. The area in which performance is identified is the most important criterion for its classification (Verboncu and Zaman, 2005, p. 64). Thus, within an organization one can identify the following types of performance: economic performance, managerial management, market performance, social performance, technical performance, etc. Regardless of the area of occurrence, performances are illustrated primarily through indicators or indices and are highlighted by different types of comparison. Depending on the terms of reference used in the comparison, addressing performance can be self-reported (actual results compared with their achievements in the past or in a future period of time) or comparative (current results compared with results obtained by other organizations – formally known as benchmarking).

A significant contribution in the global scientific literature devoted to the management of a company and the possibilities to evaluate organizational performance was conducted by John Ivancevich, James Donnelly Jr. and James Gibson, in the paper "Management. Principles and Functions", in 1989. This paperwork is one of the pioneers in this area of study. In this reference work, the authors propose four main criteria to evaluate the performance of an organization:

- Profitability - assessed through the following indicators: income remaining after payment of all obligations and revenue resulting from the use of assets;
- Competitiveness - assessed by sales volume and market share;
- Efficiency - measured by the following indicators: total cost per unit of product produced, the cost of labour per unit of product produced;
- Flexibility - measured by the level of investment in the professional development of employees, expenditures for research and development.

Through this approach, the quality of management is assessed indirectly through the company's performances it has been exercised within. Thus, the object of evaluation is not the real management of the firm, but directly the overall performance of the firm.

Another decisive concept in this area of research refers to the key performance indicators of an enterprise (KPI). This concept is highly linked to performance objectives – objectives that imply the attainment by the management system of an organization (for profit or not for profit) of measurable results, results that must be compared to a reference in real time (Nicolescu et al., 2011, p. 430). These results are also linked to a high competitiveness within that organization, defined by a certain level of efficiency and effectiveness that will allow the organization to perform on its market. It is also linked to the interests of the organizations' stakeholders. Key performance indicators are commonly included in the general strategy of the organization and derived within its policies.

Evaluating performance is (Nicolescu et al., 2011, p. 228) a set of operations through which the level of performance within an organization or within components of the organization is measured and analysed in order to realise certain qualitative remarks on them. The finality of this set of operations offers information in regards of the turnover, profitability, labour productivity and other similar indicators. The indicators that are analysed differ from one field of activity to another, but also from a company to another. One significant way of classifying indicators refers to the development of financial indicators and of non-financial indicators. The first category is based on the evaluation of financial statements and other similar documents, while the second category of indicators is not clearly and formally registered in documents, but it includes indicators that can explain the evolution of financial indicators.

The following section of this chapter will focus on the main theoretical aspects related to small and medium-sized enterprises. There are many definitions of a small enterprise, but most of them rely on a superior limit in terms of the number of employees, while others might include a threshold for the volume of sales (Oxford University Press, 2006, pp. 162). Within a national or regional economy, the distribution of firm sizes is generally positively skewed, with large numbers of small firms and reduced numbers of large firms.

In Romania, as well as in the whole European Union, a small enterprise is that enterprise that employs a maximum of 49 employees. Within this category, another type of company is the micro-enterprise, an enterprise that employs between 1 and 9 employees (European Commission, 2015, pp. 11). The medium-sized enterprise implies between 50 and 249 employees. In terms of the revenues, a micro-enterprise must have a maximum of 2 million Euros per year, a small enterprise a maximum of 10 million Euros, while the medium-sized enterprise is characterized by a total maximum revenue of 50 million Euros. The final perspective of evaluation in terms of the size of a firm is that of the total value of assets – the limits are the same as in the case of the total revenue, with a single exception: medium-sized enterprises can qualify in this category if their assets have a maximum value of 43 million Euros.

Finally, an analysis on the means through which Romanian enterprises evaluate their performance highlighted the fact that, most commonly, big enterprises are the ones that use key performance indicators, while small and medium-sized enterprises lack the interest in this type of evaluation (Botezatu, 2012).

## **2. Research objectives and methodology**

The scope of this research was to highlight the main trends in terms of the different forms of performances within Romanian small and medium-sized enterprises. In order to assure a high significance to the obtained research results, the research was carried over multiple fiscal years (between 2011 and 2015). The research was based on a series of relevant indicators, as they were estimated by Romanian entrepreneurs: the number of employees, the volume of receivables, the volume of provider liabilities, the volume of sales and the amount of profit. These indicators were selected as their bonded analysis may offer significant perspectives on the general performance of Romanian small and medium-sized enterprises.

From a scientific perspective, the methodology of the research involved a secondary research, carried out on data from the White Charter of Romanian SMEs, a yearly research realised by the National Council of Small and Medium Sized Private Enterprises from Romania. The technique of research used in the primary research is the questionnaire.

The data involved in the current research was gathered from five editions of the White Charter of Romanian SMEs, each addressing the performances that were registered in the previous fiscal year. The number of entrepreneurs that responded was of over one thousand in the case of each charter, the exact number of entrepreneurs involved in these samples of research being: 1.716 entrepreneurs in 2012, 1.858 entrepreneurs in 2013, 1.569 entrepreneurs in 2014, 1.375 entrepreneurs in 2015 and 1.096 entrepreneurs in 2016.

We thus consider that the significance of the research is assured from a scientific perspective. Due to this fact, responses and conclusions that are generated within the current paper are relevant for the whole population of entrepreneurs in Romania. Another fact that supports this statement is the distribution of the research sample, from a statistical perspective, taking into account multiple criteria (age of the company, size of the company, domain of activity, location within the development regions of Romania, type of the company).

## **3. Research results and significant highlights**

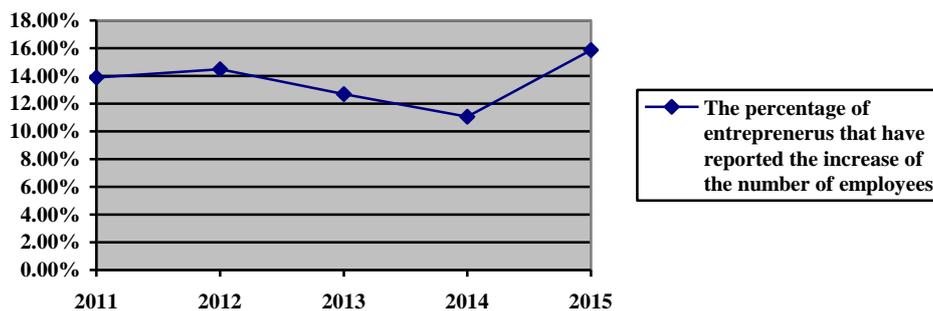
This chapter will present the evolution between 2011 and 2015 for the five indicators that were selected as a landmark for the performance of small and medium-sized enterprises in Romania. The evolution of the number of employees within Romanian enterprises was selected for this analysis due to its nature (it can be considered an indicator of effort), but also due to its social character. Its evolution can indirectly highlight the general level of consumption within the economy, a feedback loop being thus created – a higher level of consumption within the economy implies a development of the enterprises that activate on that national market.

The table below presents the perspectives of Romanian entrepreneurs in terms of the evolution of the number of employees within their enterprises, based on a scale composed out of five steps. An interesting highlight refers to the extreme evolutions of this indicator, which were more profound in 2011 and 2015. The percentage of firms in which the number of employees increased significantly was 1,73% in 2011 and 1,52% in 2015, while the percentage of firms characterized by significant decreases was 4,01% in 2011 and 4,84% in 2015. This situation can be justified by the fact that certain domains of activity may have had profound positive evolutions (IT development, for example), while other domains may have had a significant downfall in activity.

**Table 1 Evolution of the number of employees between 2011-2015**

Year	Significant increase	Slight increase	Approximately the same	Slight decrease	Significant decrease
2011	1,73%	12,15%	67,39%	14,73%	4,01%
2012	0,51%	13,97%	74,96%	9,03%	1,53%
2013	0,95%	11,74%	74,29%	10,72%	2,31%
2014	1,51%	9,54%	73,50%	13,17%	2,27%
2015	1,52%	14,34%	68,47%	10,83%	4,84%

The following figure presents the evolution of the percentage of firms that consider their number of employees has increased significant or slightly, comparing the current year to the previous (2011 compared to 2010, etc.).



**Figure 1 Evolution of the number of employees – percentage of enterprises that have reported increase of the number of employees**

The trend of this indicator has two turning points between 2011 and 2015. In 2011, 13,88% of enterprises reported an increase of the number of employees, while in 2012, the first turning point, over 14% reported an evolution of this type. After this year, a constantly smaller number of entrepreneurs highlighted an increase in the number of employees. The minimum was registered in 2014, when only 11,05% of

entrepreneurs reported an increase in terms of the number of persons they employed. However, the situation of Romanian SMEs bounced back from this perspective in 2015, when over 15% of entrepreneurs reported a high amount of employments. This evolution can be justified by the evolution of general consumption within the economy and is confirmed by the evolution of the GDP – Romania registered a 3,7% rise of the GDP in 2015, compared to 2014 (National Institute of Statistics, 2016).

The following area of analysis aims to highlight a very important correlation for any enterprise – the correlative evolution of receivables and liabilities. We considered this to be an important part of the current analysis due to the fact that it serves as an indicator of liquidity blockages within Romanian enterprises. This type of blockages can occur if the rate of increase of liabilities is superior to the rate of increase of receivables. The following two tables (table 2 and table 3) distinctly present the evolution of receivables from clients and liabilities towards provider within Romanian SMEs, between 2011 and 2015.

**Table 2 Evolution of receivables from clients between 2011-2015**

Year	Significant increase	Slight increase	Approximately the same	Slight decrease	Significant decrease
2011	6,49%	19,29%	63,67%	8,04%	2,51%
2012	7,83%	14,42%	71,47%	5,58%	0,70%
2013	3,51%	10,90%	77,95%	6,37%	1,27%
2014	3,30%	15,70%	71,29%	7,63%	2,08%
2015	2,19%	14,51%	76,28%	5,93%	1,09%

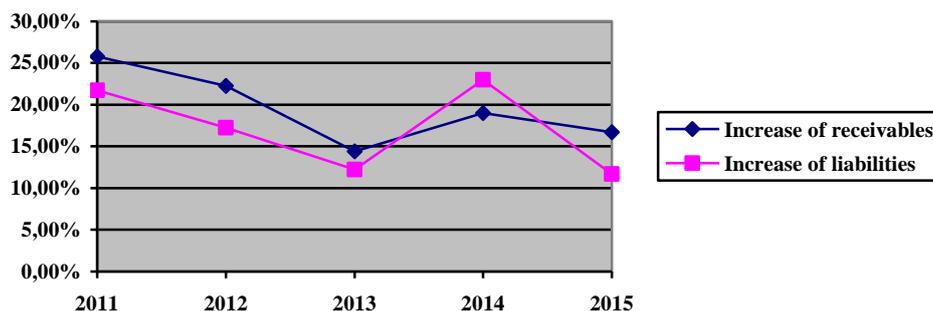
**Table 3 Evolution of provider liabilities between 2011-2015**

Year	Significant increase	Slight increase	Approximately the same	Slight decrease	Significant decrease
2011	4,38%	17,34%	62,12%	12,29%	3,87%
2012	5,47%	11,78%	70,21%	11,32%	1,23%
2013	2,10%	10,13%	74,06%	10,90%	2,80%
2014	2,60%	20,38%	64,18%	10,32%	2,52%
2015	1,82%	9,85%	73,08%	12,96%	2,28%

The single highlight that we wish to make on this bundle of primary information refers to the evolution of the percentage of firms that have reported a significant increase in receivables – in the period of analysis, this indicators has profoundly decreased from 7,83% in 2012 to only 2,19%. This is not necessarily a sign of weakness for enterprises (due to the lower volume of sale), as clients might actually be more prompt in making their payments in more recent years.

Based on the information in the two tables, figure 2 presents a correlative analysis of the evolution of receivables and liabilities within Romanian SMEs. For each of the years included in this analysis, the result highlighted in the figure resulted after summing up the percentages of entrepreneurs that reported significant

increases and slight increases in receivables/liabilities in the current year, compared to the previous fiscal year.



**Figure 2 Correlative analysis upon the evolution of receivables and liabilities**

The general situation of the sample highlights the fact that the only year in which, on average, financial blockages had a higher chance of occurrence was 2014. In this year, 19% of entrepreneurs reported increases in receivables and almost 23% reported increases in liabilities towards their suppliers. In addition to this, the general trend of both indicators (receivables and liabilities) is a negative one – thus, the rhythm in which payments and good or services are passed from an enterprise to another is significantly higher and sustains economic development.

This statement is also sustained by the evolution presented in the following table. The evolution of the volume of sales between 2011 and 2015 is characterised by a general positive trend, with the highest percentage of entrepreneurs reporting significant increases in terms of sales being registered in 2015 (7,12%). Complementary to this evolution, one of the lowest percentages of entrepreneurs that reported a significant decrease in sales being registered in the same year.

**Table 4 Evolution of the volume of sales between 2011-2015**

Year	Significant increase	Slight increase	Approximately the same	Slight decrease	Significant decrease
2011	5,10%	22,71%	40,07%	25,45%	6,66%
2012	2,21%	21,70%	49,12%	22,38%	4,59%
2013	2,47%	21,32%	50,67%	21,19%	4,34%
2014	2,97%	20,55%	50,68%	20,09%	5,71%
2015	7,12%	24,10%	48,86%	14,80%	5,12%

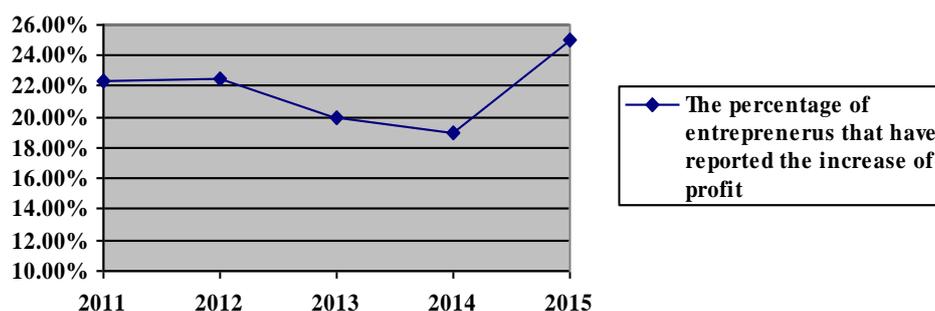
The final area of analysis refers to the most important indicator of an enterprises' economic and managerial performance – the level of profit. The evolution of this indicators confirms the results and the conclusions that were presented in the previous areas of performance analysis. This statement is sustained by the fact that all measures, actions and results within a for-profit organizations have a direct or indirect influence on its profitability.

The following table presents the evaluation of Romanian entrepreneurs in terms of their enterprises' profitability. The results of the previous areas of analysis are confirmed by the fact that the highest percentage of entrepreneurs that highlighted a significant increase in profit was registered in the final year of analysis, in 2015 (3,78%). Again, complementary to this evolution, this year was characterized by the lowest number of entrepreneurs that registered significant decreases in terms of the amount of profit registered (only 6,34%).

**Table 5 Evolution of the amount of profit between 2011-2015**

Year	Significant increase	Slight increase	Approximately the same	Slight decrease	Significant decrease
2011	1,90%	20,42%	36,65%	31,41%	9,62%
2012	0,75%	21,71%	44,57%	25,17%	7,79%
2013	1,40%	18,51%	50,40%	23,30%	6,39%
2014	1,59%	17,42%	51,14%	22,58%	7,27%
2015	3,78%	21,29%	52,79%	15,80%	6,34%

The graphic representation of the information from table 5 is carried out within figure 3. The indicators used in this graphic analysis refer to the percentage of entrepreneurs that have reported increases of any type in terms of profits. 2015 stands as a comeback year from this perspective, as over 25% of entrepreneurs stated that they have registered larger amounts of profit, compared to the past.



**Figure 3: Evolution of profits – percentage of enterprises that have reported increase of the amount of profit**

### Conclusions

Managing any type of an organization has always been focused on improving efficiency, effectiveness and, on this basis, of the general performance of that organization. From my perspective, the first step in assuring a better level of performance is the measurement of the indicators that characterize the activity of the organization in the past, in order to assure a valid basis for analysing the causes of

that past performance and for achieving new types and levels of performance. As Peter Drucker, one of the most famous management consultants in history, stated, “if you can’t measure it, you can’t manage it or improve it”. This statement sustains also the perspective that certain characteristics of an organization cannot be measured and, thus, cannot be improved. Such characteristics might refer to the social aspects of an organization, but even these can be appreciated in terms of a positive or a negative evolution.

Narrowing down the general analysis on organizational performance, the scope of this research was to highlight the main trends in terms of the performances that Romanian small and medium-sized enterprises registered between 2011 and 2015. The results highlighted in the previous sections of the paper revealed that the general evolution of these enterprises has been, from the entrepreneurs’ perspective, a positive one over the questioned period of time. Each primary indicator has presented a general improvement, even though the nature of the analysed indicators has been different, as they referred to multiple areas of an enterprise (an analysis was carried out on the number of employees, the volume of sales and on the correlative evolution of receivables and liabilities).

The evolution of profits has also been a focus within this paper, as we considered that this indicator reflects the overall situation of Romanian enterprises. This statement is also supported by the fact that profit is actually the scope and the meaning for which enterprises are created and developed. Between 2011 and 2015, Romanian small and medium-sized enterprises registered an increase in this indicator, even though under 20% of the questioned entrepreneurs registered increases in profits in 2013 and 2014.

Looking into perspective, taking into account that SMEs are the backbone of any modern economy, their performance must be sustained in order to assure a proper and healthy development of the economic environment. Measures to sustain the improvement of Romanian SMEs might include, from a governmental point of view: tax incentives, different forms of direct state aid (financial, operational, etc.), a lower level of bureaucracy, offering benefits for employers’ associations, etc.

In terms of the research perspectives, I consider that an interesting area of research refers to the effect of EU structural funds on the development of Romanian enterprises. Furthermore, a similar analysis to the one presented in the current paper, but with a broader series of indicators, might highlight other significant trends. Being aware of the complexity of the topic at hand, I will look forward to receiving feedback and means of improving the research.

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