

THE DEVELOPMENT OF SMALL AND MEDIUM ENTERPRISES SECTOR IN ROMANIA BETWEEN 2000.-2007.

RAZVOJ MALIH I SREDNJIH PODUZEĆA SEKTORA U RUMUNJSKOJ IZMEĐU 2000.-2007.

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Abstract: *Small and medium-sized enterprises sector is considered the engine of any economy, the economy more dynamic factor, element of economic growth. This is the most numerous and important sector of business, performing economic, technical and social functions. SME sector is the key to generate both economic growth and sustainable and continue economic development. This paper aims to analyse the evolution and development of small and medium-sized enterprises during 2000-2007, presenting the main indicators for the analysis and conclusions related to reading. Also, the paper aims to present some conclusions regarding Romanian business environment during the analyzed period.*

Key words: *small and medium enterprises, development, economy, Romania, competitiveness, analysis indicators, regional development*

Sažetak: *Mala i srednja poduzeća su motor bilo koje ekonomije, a gospodarstvo je više dinamički faktor i element gospodarskog rasta. To je najbrojniji i važan sektor poslovanja, obavljanja gospodarskih, tehničkih i društvenih funkcija. Ovaj rad ima za cilj da analizira razvoj malih i srednjih poduzeća tokom 2000-2007, predstavljajući glavne pokazatelje za analizu i zaključke.*

Ključne riječi: *mala i srednja poduzeća, razvoj, ekonomija, Rumunjska, konkurentnost, analiza pokazatelja, regionalni razvoj*



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1. Introduction

In today's business environment, SMEs are the pillar of the economy of every state, the engine with which it works. SME sector is the key to generate both economic growth and sustainable and continue economic development. Vital contribution of SMEs to economic growth is now a widely recognized fact. Highlighting their economic and social positive effects have led to consideration of SME sector as an area of strategic interest to the economy. Although, by definition, SMEs are relatively small size, they are characterized by complexity and variety- specific features and functionality, whose knowledge and consideration are required in order to maximize its economic and social performance.

2. Definition of SMEs

In order to analyze the role and the importance of small and medium-sized enterprises (SMEs) firstly it is necessary to define them. Taking into account that Romania became an EU member, the SMEs definition has been aligned to unique market requirements (Recommendation no. 2003/361/EC). In our country, the SMEs definition is stipulated by the Law no. 346/2004 on stimulating the creation and development of SMEs, published in the Romanian Official Gazette, Part I, no. 681 of July 29, 2004, with subsequent amendments (Ordinance no. 27/26 January 2006). Therefore, an enterprise is considered to be a SME if it fulfils the criteria regarding: the number of employees, turnover and maximum capital.

Undertaking category	Number of employees	Turnover (mil. Euros)	Total assets (mil. Euros)
Microenterprises	<10	≤2	OR ≤2
Small enterprises	<50	≤10	OR ≤10
Medium enterprises	<250	≤50	OR ≤43

Table 1. SMEs classification criteria

Regarding the internal organization of SMEs, it is decisively influenced by two considerations:

- in most cases, over 80%, leadership is provided by the owner, which can prevent in a certain extent the appearance and delegation of authority in the event;
- the employees are poorly represented in the unions, which leads to the formation of a privileged relationships between employees and owners. Smooth work process depends on the capacity of the enterprise management to rule these established relationships.

Generally, in the economy are two types of SMEs:

1. Small traditional business, which usually has no long term strategy and has a small market to sell its products; also, the manufacture of the goods and their development are transmitted through from generation to generation.

2. The new type of SMEs (modern SMEs) uses a high technology, seeks for new markets, tries to find a loophole technology to create products better suited to their destination, higher quality products accompanied by a higher service, especially regarding reliability, durability and finishing of the goods. In general, modern SMEs are competitive in obtaining a complex product. This competence is assured both by training studies organised for the employees and by special skills and experience.

In the present highly competitive business environment, the importance of small and middle enterprises (SMEs) has become more and more outstanding, mostly demonstrated by the following economic and social aspects:

- they bring an important contribution to the strengthening of the competitive environment, they stimulate the market reducing the capacity of the big companies to influence it and undermining their exclusive position;
- they offer a strong individuality of their products and services;
- they represent the most important source of new labor places;
- they present a better response and adaptability to the market needs;
- they create opportunities for the development and adjustment of new technologies;
- they exploit efficiently the market niches which are considered unprofitable by the big companies;
- they exploit efficiently the local resources;
- they represent the suppliers specialized for the big companies;
- they contribute to the development of the entrepreneurial culture and assures the delivery of a high number of entrepreneurs capable to assume risks;
- they stimulate the investments from the population economies or from other funds which, otherwise, wouldn't obtain a profit;
- they contribute to the political and social stability on long and very long term;
- they generate most of the GDP of each country, usually between 55%-95%;
- they act as a more dynamic agent of the economy by the large number of created entrepreneurs, while developing a new social category, which contribute to the social bases of transition;
- they stimulate regional and rural development.

3. The SMEs analysis on dimension categories between 2000 – 2007

Enterprise category	2000	2001	2002	2003	2004	2005	2006	2007
Micro	375.804	374.255	377.499	417.366	358.787	386.561	410.763	431.029
Small	29.121	30.340	30.231	33.856	36.392	39.128	43.419	47.022
Medium	7.504	7.737	7.761	8.147	9.121	9.158	9.322	9.577
Total	412.429	412.332	415.491	459.369	404.300	434.847	463.504	487.628

Table 2. The active SMEs number, on total and dimension categories

The fluctuant evolution of the active SMEs between 2000 – 2007 is proved by a significant growth in 2002 – 2003 period, followed by an abrupt reduction in 2004 (with less than about 55 000 enterprises). In the last three years we observe a return on an upward curve in the number of active SMEs reaching by the end of 2007 the highest number recorded after 2000 (487.628 enterprises).

The majority of SMEs were micro, having the largest percent in the whole period. In 2006 and also in 2007, their number represented 88.4% from all the SMEs; this is a slight decrease in comparison to the year 2000 when the percent was 91.1%.

The great number of microenterprises is determined by the fact this is the first step succeeded in business by the entrepreneurs, but it is also the result of the new changes in the fields of: institution, legislative and fiscal policies. The micro obtained in the analyzed period a series of facilities concerning the taxation (1.5-2% from turnover unlike other companies which are taxed with an unique quota of 16%). Also, the big companies, introducing externalization of services, helped the development of micro which supplied these services for them.

The role of SMEs is very important to stimulate the emergent private sector. These phenomena reflect the economical growth in Romania, where the former enterprises, owned totally or partially by the state, were completely privatized or were divided and, afterwards, privatized, situations which led to the growth of SMEs number. The personnel who were employed in the former dissolved state owned companies migrated to the private sector of SME.

4. The number of SMEs in the main economic activity sectors between 2000 – 2007

The number of active SMEs grew continuously in 2007 in all economic sectors. Therefore, a significant dynamic registered in construction field, in which the growth were more important (32%), while in industry and services registered the lowest increases, of 4.5% and 2.5%.

Sector	2000	2001	2002	2003	2004	2005	2006	2007
Agriculture, forestry	9.925	10.720	10.523	13.704	11.746	11.958	12.859	14.036
Industry and electricity	45.719	47.693	52.923	59.555	54.993	55.718	56.873	59.492
Construction field	11.808	13.402	18.842	24.542	25.197	29.265	34.757	45.896
Services	344.977	340.517	333.203	361.568	312.364	337.906	359.015	368.204
Total	412.429	412.332	415.491	459.369	404.300	434.847	463.504	487.628

Table 3. The number of SMEs in the main economic activity sectors

The SMEs in agriculture and forestry have continuously increased their number, with 41.4% in 2007 in comparison to the year 2000. The same observation may be noticed for the industry and energy sector in which the growth of SMEs number was 30%. In comparison with the year 2000 the number of active SMEs in construction increased about four times. This growth of SMEs in this area of activity has the following reasons:

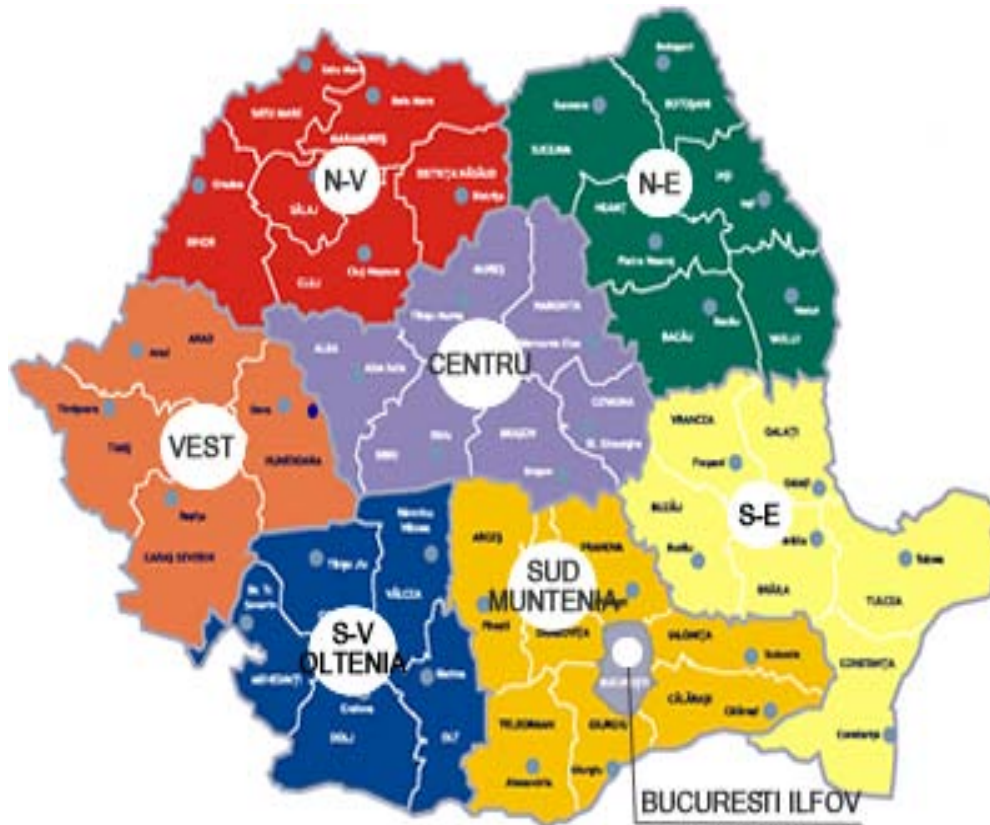
- the development of residential housing sector and business and, partly, the tradition in the construction industry;
- the numerous opportunities determined by the extension urban infrastructure;
- the great number of works for water supply and sewerage systems;
- the increase of opportunities associated with industrial work and rehabilitation the railway and rural road infrastructure, with works in the energy sector, including alternative energy in the commercial sector (large commercial and recreational complex, malls) and socio-cultural and educational area (rehabilitation programs of educational institutions) etc.

The SMEs for the industry and electricity sector registered a fluctuant evolution in these eight years. Only 10% from the microenterprises work in this field.

Services represent the field where we find the greatest number of SMEs (75.5% in 2007). This share marks a small decrease in total active SMEs number in comparison to the year 2000 (83.6%). Despite the reduction in its specific weight, services sector gives the main feature for the SME sector in Romania.

5. SME sector spatial density at national level

SMEs, by their nature and operating activities area, are very connected to the local market, most of them occurring locally and acting locally or regionally. This is the reason why, the indicator considered relevant when measuring the dimension for regional markets and the territorial evolution of SMEs is the number of SMEs per 1000 inhabitants.



Graphic 1. Developing regions in Romania in 2007

The average density of SMEs per 1000 inhabitants in Romania is growing continuously. Yet, this growth is significant only at the national level, being far below the European average in other EU countries such as Czech Republic, Cyprus, Greece, Hungary, Italy, Sweden, which reported values around 70 SMEs per 1000 inhabitants. Thus, the average density reached, in 2007, the value of 23 SMEs per 1000 inhabitants, up from 17 SMEs per 1000 inhabitants in 2003 and 21.7 SMEs per 1000 inhabitants in 2006.

Region	GDP per capita (adjusted for purchasing power parity in 2005), in 2007	SMEs per 1000 inhabitants, in 2007
North-West	7542	25.3
Centre	8066.3	24.2
North-East	5429.6	14.5
South-East	6920.6	20.4
South-Muntenia	6526.5	15.8
Bucharest-Ilfov	16760.1	49.9
South-West Oltenia	6293.3	15.5
West	8916.7	24.3

Table 4. Summary indicators of development in territorial, developing regions in 2007

Notes:

- there are significant imbalances between the developing regions in terms of SME development; the lowest density is 14.5 SMEs/1000 inhabitants in North-East up to 49.9 SMEs/1000 inhabitants in Bucharest-Ilfov region;
- Bucharest-Ilfov, with 49.9 SMEs/1000 inhabitants, is virtually the only region that is aligned to the medium density recorded in EU countries (50 SMEs per 1000 inhabitants);
- although the largest part of SMEs is in Bucharest-Ilfov area, the regional distribution of SMEs shows itself in a better proportion in the other regions;
- the medium density in Romania is spread fairly equal, that is in four regions (North-East, South-East, South-Muntenia and South-West Oltenia) the SMEs density is under the country average (22.6) and in other four regions (Bucharest-Ilfov, Centre, West and North-West) is situated over the country average.
- the medium values under those in EU, regarding density of SMEs, indicate, in an indirect way, the growth potential of this sector in Romania, sustained steadily by appropriate politics and programs. I believe that the Romanian legislation should be reconsidered to encourage this sector, which has a real potential of growth.

The data included in table 4 illustrates the direct positive correlation between the two indicators, namely developing regions that get a higher level of GDP per capita also obtain a better performance at SMEs density/1000 inhabitants indicator. This shows that the overall economic environment at the regional level, which can be translated by business infrastructure, higher qualified labor, regional purchasing power, larger markets and multiplied opportunities, promotes and develops the SMEs sector.

6. Work labor employment for SMEs

Average annual number of employees in the SMEs sector was 2.764.768 persons by the end of 2007, representing 16% more than in 2004 and a small increase of 1.5% in comparison with 2006.

The number of employees is relatively balanced distributed on different size categories of SMEs. Each category has approximately one third of the number of personnel from SME sector and the structure of the annual medium number of employees at every SME category in 2007 shows that 32.5% belongs to microenterprises, 31.3% to small enterprises and 34.5% to medium-sized enterprises.

Enterprise category	2001	2002	2003	2004	2005	2006	2007
Micro	34.5	24.6	27.5	31.2	33.8	34.1	32.5
Small	28.9	32.7	32.3	30.9	30.4	31.3	33.5
Medium	36.6	42.7	40.2	37.9	35.8	34.5	34.0
Total	100	100	100	100	100	100	100

Table 5. Structure number of employees in private sector SMEs, by size class between 2001-2007 (%)

The SME sector shows only small increases in staff number, while for the first time, medium and microenterprises have lost average number of employees registered compared with the previous year. Compared with 2006, growth was 8.2% and likely to influence the overall average SME sector, offsetting losses in other size categories. Instead, microenterprises registered a negative dynamic, respectively -3.2% over the previous year and medium-sized enterprises had a dynamic range of only -0.3% of the average number of employees in 2006 to the category.

Sector of activity	2001	2002	2003	2004	2005	2006	2007
Agriculture	3.4	4.0	3.7	3.3	3.1	2.8	3.0
Industry	30.9	36.8	35.4	34	31.6	30.1	29.5
Construction	9.4	10.7	10.8	10.7	10.5	11.4	13.6
Services	56.3	48.5	50.1	52	54.8	55.7	53.9
Total	100	100	100	100	100	100	100

Table 6. Structure number of employees in SMEs, within main sectors of activity (%)

Concerning the dynamic of employment in SME sector at different activity sectors, from the data in the above table, we can notice a permanent growth in the construction and services sectors. The evolution of this indicator in the industry area draws the following trajectory: ascendant at the beginning of the interval, after that is positioned on the roof of stability and for the last year is decreasing. The agriculture SMEs registered a slight fluctuation in the number of employees, taking into account the inappropriate situation of the last years in this activity sector.

7. Conclusion

In 2007, from the demographic perspective, SMEs look in this way:

The number of SMEs continue to grow in 2007, contradicting the pessimistic scenarios regarding their future and sustainability with the accession of Romania to the EU. Thus, their number reached 487.628, representing an increase of 18.2% since 2000.

The year 2007 doesn't bring substantial changes in structure size categories: with 88.4% micro remain dominant. However, since 2000, their specific weight is placed on continuing downward trend in the favor of small and medium-sized enterprises.

The number of active SMEs in construction increased nearly four times (45.896 to 11.808 in 2000), marking a significant development, as a response to the situation of private initiative of growth and development of the whole country. The growth was more pronounced in the last three analyzed years.

Active enterprises in the industry are larger sized than other sectors. Almost half (44.2%) of medium sized enterprises are developing industrial activity, while only one-tenth (9.8%) of micro are working in this field.

Services, and especially trade, are, generally, preferred areas by microenterprises (78.6%).

The structure of medium sized enterprises differs from all categories and the remaining size classes (micro and small).

Medium density continued to increase to nearly 23 SMEs per 1000 inhabitants, but remain below average registered in other EU member states (70 in Czech Republic, Hungary, Italy, Sweden).

The spread between regions is diminishing, however, significant differences still remain; the highest density was recorded in Bucharest-Ilfov region (49.9 SMEs per 1000 inhabitants).

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Photo 146. Cheerleaders / Mažoretkinje