

An outlook on the competitive framework of Romanian SMEs challenged by the economic crisis

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Abstract

SMEs account for over 99% of all European business, proving to be engines of economic growth and employment. Due to the European integration, the competition has increased both on the international and national markets and the quality of the products and services offered to customers are considered to be major factors of competitiveness for SMEs. The SMEs sector in Romania proved to be the most dynamic sector but it was also one of the first sectors to be affected by the global financial crisis, in spite of the defining features of SMEs such as dynamism, flexibility, innovative spirit, client' orientation or capacity to adapt that were not enough to resist the powerful impact of the crisis. The main challenges most SMEs in Romania have to cope with as a result of the economic-financial crisis are sudden rises in the prices of raw materials, energy and food, liquidity and credit related problems, a marked decline in the demand for products and services, considerable variations in the exchange rate, and inflation.

The article approaches the competitive framework of SMEs in Romania amid the economic-financial crisis, by looking first of all at the current situation of the SMEs sector since Romania joined the European Union, followed by an analysis on the way in which SMEs in Romania have been affected by the crisis.

Key words: SMEs, competitive framework, economic crisis

JEL classification: L25, L26, M13

The Romanian SMEs sector – a general perspective

Once Romania joined the European Union various benefits as well as challenges were brought forward, such as access to structural funds which Romania will be benefiting from until 2013, meant to reduce economic and social disparities between regions and creation of economic and social cohesion.

The White Charter of SMEs in Romania is meant to offer a thorough analysis of the past and present situation of the Romanian Small and Medium Sized Enterprises sector. According to the 2008 SME's White Charter, Romania's integration into the European Union was considered as a major opportunity by 46.67% of SME, only 9.18% considering it as a major threat.

The positive impact of Romania's integration in the European Union on the SMEs activities consists of:

- Improving access on markets (indicated by 43.47% of SMEs);
- The existence of better and/or cheaper potential suppliers (indicated by 38.54% of SMEs);
- A better legislation (indicated by 35.35% of SMEs);
- The access to structural funds (indicated by 32.64% of SMEs).

Starting with the last quarter of 2008, the macroeconomic context in which Romanian SMEs carried out their activity was a difficult one, marked by negative and unpredictable evolutions whose impact has increased especially during 2009.

SME's 2009 White Charter from Romania shows that over 58% of SMEs consider that the Romanian business environment is not conducive for business development. In what concerns future evolution, at that time, Romanian entrepreneurs were not confident of the possibility to experience an economic recovery, about 58% estimating that the Romanian economic environment will hamper development of companies.

According to the 2010 Evaluation of the Romanian SMEs sector, the number of SMEs that obtained profit in 2009 decreased by 2% compared to the first half of 2008. Another important finding is that the average number of employees in SMEs decreased by 3, 11% compared to the first half of 2009 while the investments made by SMEs decreased on average by 6, 45%.

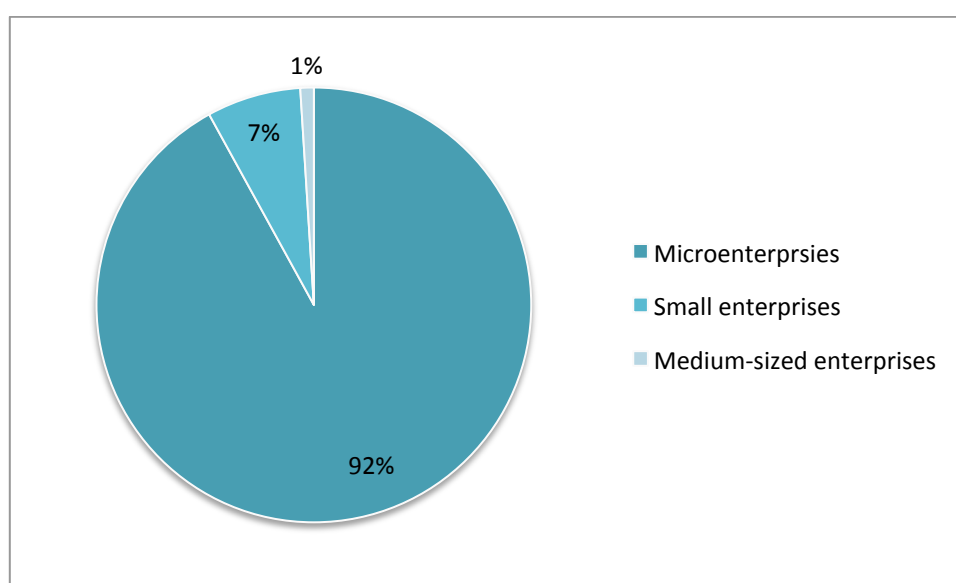


Fig.1: Structure of the Romanian SMEs sector according to the size of the SMEs registered in 2009

Source: Annual Report on the Romanian SMEs sector, 2010

During 2008 and 2009, in the context of the SMEs sector's sustained demographic growth, microenterprises have increased their share in the overall structure of the enterprises registered (fig.1). This aspect might be explained by the low level of internal capital as well as by the fact that the majority of Romanian investors tend to take the first step in business by setting up microenterprises which, during their life cycle, are unlikely to move to higher size categories. At the same time, we must not overlook the legislative factors and public policies along with fiscal measures taken which encouraged an increase in the number of new legal entities rather than consolidating the ones already registered. On the other hand, the

prevalence of microenterprises describes a characteristic of the Romanian SMEs long-term development, which shows stagnation in the development of micro firms. This, in turn, could raise competitiveness issues in what concerns Romanian SMEs competition on the EU internal market, another important aspect that should not be overlooked.

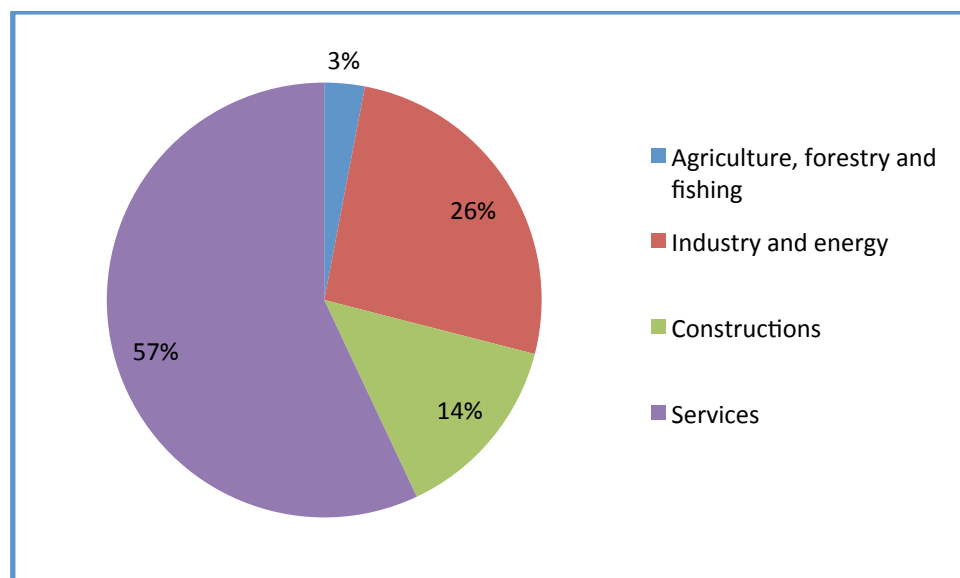


Fig.2: Distribution of the number of employees in Romanian SMEs according to the sector of activity, 2009

Source: Annual Report on the Romanian SMEs sector, 2010

On the long term, the share of employees in the SMEs in the services sector of activity increases considerably in comparison with the other sectors (fig.2). At the same time, it is worth mentioning that the share of average number of employees in Constructions increases on a continuous basis from 9,4 % in 2001 to 14,9% in 2008 and, in 2009, it diminishes to 13,5%.

The Romanian SMEs and the economic crisis

This first UEAPME SME finance survey, based on national SME finance surveys, was conducted in 2009 by national craft and SME associations in Europe either by independent market research institutions or public finance providers. The survey allowed the display of some important trends as well as confirming some of the difficulties SMEs were experiencing in what concerns obtaining access to finance in the current financial and economic crisis. The findings of the survey revealed that between 20% and 32% of SMEs reported increased difficulties concerning access to finance, and out of those SMEs that have tried to get access to finance, 12% to 24% reported that they did not have access at all.

According to a recent study (2009), 74% of bankers from Central and Eastern Europe considered that the impact of the financial crisis represents the biggest threat for the banking activity on the SMEs segment and 50% stated that the main factor that endangers the bank's exposure on the SMEs segment is the actual macroeconomic environment.

The Association of Chartered Certified Accountants (ACCA) calls for some key SME measures that need to be in place in order to speed up economic recovery, such as:

- Government recognition of SMEs varied needs, adopting the ‘think small first’ approach when designing fiscal, economic, regulatory and legal environments;
- Facilitating the use of equity finance, in order to build new, knowledge-intensive industries, ensuring future competitiveness of the SME sector;
- Ensuring a more competitive public procurement market, more open to small business;
- Tax transparency, a long-term approach to tax policy, simplicity and stability and tax policy that is fully evaluated prior to implementation

Table 1

The influence of the economic crisis on the activities carried out by Romanian SMEs

	Increased	Remained at the same level	Decreased	I don't know	%
Access to finance	4,4%	23,2%	41,7%	30,7	%
Possibility to invest in capital programs	0,9%	11,4%	32,5%	55,3	%
Company cash-flow	3,1%	12,3%	56,6%	28,1	%
Sales revenues	12,7%	9,6%	59,2%	18,4	%
Possibility to enter new markets	10,5%	18%	40,8%	30,7	%
Ability to apply the strategy	14%	21,9%	25,9%	38,2	%
New business opportunities	18%	16,2%	38,2%	27,6	%
The company's market value	11,4%	19,7%	32,5%	36,4	%
Consumers' loyalty	7,5%	39,5%	24,1%	28,9	%

Source: The impact of the crisis on the SMEs in Romania, 2009

A study on the impact of the crisis on Romanian SMEs analyzed, among other important issues, the way in which the crisis affected certain aspects related to the activity carried out by the enterprises questioned, such as sales revenues, possibility to enter new markets or consumers' loyalty. The results of this analysis (Table 1) points out that the crisis the business environment is faced with has affected Romanian SMEs to the highest extent in what concerns sales revenues (59.2%) and the cash flow (56.6%).

One way to describe the impact of the economic-financial crisis on the SMEs sector in Romania is to refer to the main concern for SMEs at the moment, regarding the increasing difficulty in gaining access to credits. This is due to banks' low interest in small customers, the high costs of credits as well as the increasingly stringent requirements applied to the analysis of projects and applicants' trustworthiness. The impact of the financial crisis is especially visible in the case of SMEs in sectors such as commerce, construction and real estate.

In this context, looking at the situation on the market which was completely different as compared to the previous year, the SMEs were obliged to take certain urgent measures in order to adjust administrative expenses. Such measures have resulted in diminishing investments, postponing or even abandoning certain investment projects, renegotiating contracts with suppliers, restructuring/ reducing activity, consequently personnel and wage reductions.

In these times of crisis, encouraging entrepreneurship could represent the key to sustainable economic recovery. In this direction, on February 2, 2011 the Romanian Government adopted a decision to support young entrepreneurs, by stimulating the setting up and development of microenterprises. The project, prepared by the Government since 2010, has the objective to support the business environment and creation of new jobs. The decision relates to a state grant amounting to maximum 50% of what the project proposed is worth, but not more than 10,000 Euros, as well as the guaranteeing of loans the young entrepreneurs will raise.

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