

The role of small and medium-sized enterprises to upgrade the social cohesion of Romania

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Abstract: For the most part of the European Union, the role of SMEs was an important one regarding the contribution to the economic growth and improvement of the social conditions of the population before the crisis and, more likely, it will remain the same after the crisis.

This article analyzes synoptically the factors that can influence the growth of SMEs sector in Romania and the relevance of this category of companies for the increase of economic convergence process toward EU average, firstly felt by improving the living conditions of individuals.

Keywords: companies, SMEs, economic growth, economic development, convergence

1. Introduction.

Generally, the role of small and medium-sized enterprises (SMEs) is considered extremely important concerning the support of economic growth and, especially, the increase of number of jobs in the member states of the European Union, where this category of companies has a major part of the total number of companies and employees.

The small and medium-sized enterprises are defined by the European Commission as enterprises that have up to 250 employees, on the one hand, and an annual turnover of at least 50 million euro or a total annual balance sheet (the total value of assets) of maximum 43 billion euro, on the other hand

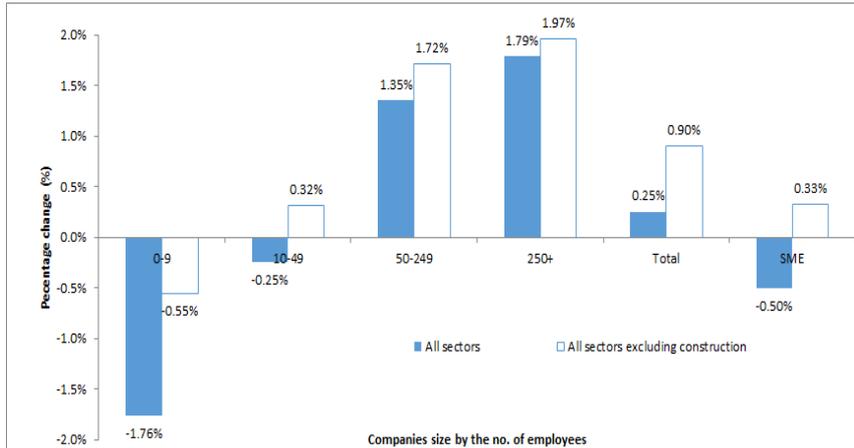
As shown by the *EIM Business & Policy Research* (2012) study, over the period 2002 - 2010, 85% of the newly created jobs in EU were registered in SMEs sector, as compared to USA, where the role of SMEs concerning the job creation is more reduced (for example, over the period 2002 - 2007, 58% of the newly created jobs by private sector in USA were from SMEs) suggesting that the increasing engine of the number jobs in Europe is represented by companies with up to 250 employees, while in USA the accent is on the performance of big-sized companies.

According to data of the *European Commission*, between 2010 – 2013, the SMEs occupation, decreased in the member states of EU with 0,5 % while, if there are also considered the big-sized companies, per totally the occupation registered a quasi-stagnation, increasing with only 0,25% (see the following *Figure 1*).

However, if we eliminate the evolutions of constructions sector –powerfully affected by crisis in many of the European states that before 2008 registered a real estate *boom*- , we could observe an increase of the number of occupied persons of 0,33% in case of SMEs, and of 0,9 % in case of all companies. In this context, according to Trasca D.L., Aceleanu M.I., Sahlian D. (2013) and Sahlian D.(2014) the cohesion policy represents one of the solutions of the current crisis surpassing because the efficient use of its financial instruments determine the strength of the European economy competitiveness.

On the other hand, the medium-sized companies (with a number of employees between 50 and 249) and the big-sized companies (with at least 250 employees) registered on average a positive performance in the same period of time from the point of view of occupation, succeeding to adapt better and take advantage of the competitive advantages (in terms of productivity increase, financing opportunities of the activity development or entry into new markets, inclusively the external ones).

Figure 1: Evolution of the occupation in EU between 2010 -2013 according to the size of the companies



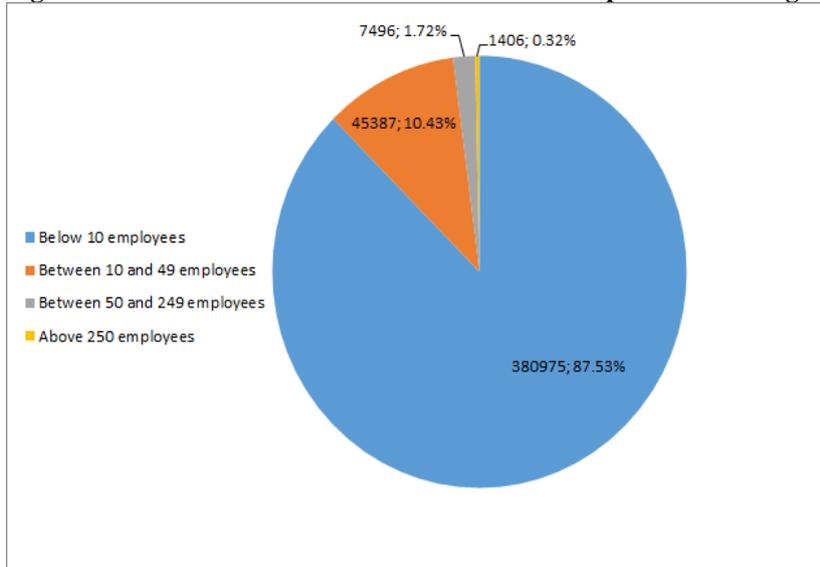
Source: European Commission (2015)

2. The situation of SMEs in Romania after the crisis

Romania is an economy dominated by the category of microenterprises, their part in the total of the companies being about 90% in 2014, according to the data of the European Commission. At the other end, the big-sized companies that have over 250 employees represented only 0,3% of a total over 435260 companies (see Figure 2).

Also, 88% of the total of 433858 SMEs represents the enterprises with less than 10 employees. This structure dominated by microenterprises, that characterize the economy of Romania, makes the activity of the Romanian companies firstly dependent on the evolution of the internal demand and domestic macroeconomic conditions (on the evolution of the internal credit (for consumption and investment), on the evolution of the unemployed people and households available income or on the fiscal-budgetary measurements adopted by the government, etc.).

Figure 2: Structure of the number of Romanian companies according to the size of the company (2014)



Source: European Commission, Eurostat (2014)

Thus, as Romania had, over the period 2009-2010, one of the most powerful economic decline in the European Union (after the Baltic States) and a significant adjustment to the structural budgetary balance, along with the depreciation of the national currency and the limited possibilities of bank funding, these evolutions have also been seen at the level of small and medium-sized enterprises (as number of enterprises and employees), especially in the case of those that were activating in sectors that were in powerful expansion before 2008, as constructions and retail.

The real Gross Domestic Product suddenly decreased in 2009, with 6,6% (after an increase of 6,6% in 2008), and the post-crisis recovery was a difficult one: GDP also continued to decrease in 2010, and GDP continued to have a positive increase in 2011(+2,2%), being consolidated in 2012, 2013 and 2014 when the increasing rates remained in positive territory, with +0,7, +3,4% and +2,9%, especially on the background of net

export performance, on the part of the utilization of GDP, industry and agriculture, on the part of GDP formation.

The impact of crisis over the evolution of the number of enterprises and employees employed in the SMEs sector is analyzed in the following paragraphs. According to the data of the European Commission supplied within the annual SMEs Performance Review, it could be observed that the number of companies of SMEs sector was lower with 72500 in 2014 as compared to 2008, being registered a decrease of 14%. The only segment where the number of enterprises in 2014 was over that in 2008 was the segment of small-sized enterprises (10 to 49 employees) (see *Table 1*).

Table 1: Evolution of the number of companies in Romania (2008-2014)

Companies size class		2008	2009	2010	2011	2012	2013	2014
Micro-enterprises	Between 0 – 9 employees	450,396	439,351	394,660	353,057	358,943	373,944	380,975
Small and medium-sized enterprises	Between 10 – 49 employees	44,679	42,130	39,957	43,133	43,501	44,682	45,387
	Between 50 – 249 employees	9,506	8,165	7,624	8,148	7,766	7,669	7,496
Big-sized enterprises	Over 250 employees	1,824	1,552	1,495	1,540	1,459	1,455	1,406
Total of enterprises		506,405	491,198	443,736	405,878	411,670	427,749	435,262
Total SMEs		504,581	489,646	442,241	404,338	410,210	426,295	433,858

Source: European Commission (2014)

From the perspective of the evolution of the number of employees in the sector of SMEs in Romania, we can say that in 2014 SMEs employed 67% of the total number of employees (2,787 million of 4,146 million persons). The effective of salaries still remained under the level in 2008, the number of employees being with approximate 4 % less in 2014 (or with 117400 employees in absolute terms). The most powerful affected were the employees of medium-sized enterprises (between 50 -249 employees) where the decrease was of two ciphers, respectively 11, 8% (or 114300 employees).

As in the case of number of companies, the only segment of SMEs that exceeded the values in 2008, the last year of economic boom was the one of small-sized enterprises (10-49 enterprises), in 2014 the number of employees being with 6,8% higher (or 61500 employees).

This increase of employees came especially during the increase of employment among small-sized companies in the sector of manufacturing industry, but also in the sector of administrative, support, accommodation and food services that were able to compensate the declines of the sector of retail and wholesale and constructions in 2008-2014.

Table2: Evolution of the number of employees in Romania (2008-2014)

Companies size class	size	2008	2009	2010	2011	2012	2013	2014
Micro-enterprises	Between 0 – 9 employees	1,027,442	966,217	879,419	850,618	872,249	931,091	962,767
Small and medium-sized enterprises	Between 10 – 49 employees	907,298	826,836	788,098	850,058	870,714	929,499	968,792
	Between 50 – 249 employees	970,225	833,068	776,301	829,318	813,958	848,216	855,924
Big-sized enterprises	Over 250 employees	1,508,798	1,326,260	1,259,481	1,281,509	1,266,321	1,349,456	1,358,963
Total of enterprises		4,413,763	3,952,381	3,703,299	3,811,503	3,823,240	4,058,264	4,146,444
Total SMEs		2,904,965	2,626,121	2,443,818	2,529,994	2,556,921	2,708,806	2,787,483

Source: European Commission. Euro stat

This poor performance of SMEs in terms of growth in the number of companies and employment after 2010 can be caused by several factors, the first of which is a limited access of SMEs to financing, SMEs being more dependent on funding from foreign sources, mainly bank finance.

Regarding the report of *Employment and Social Developments in Europe* (2015), this poor performance of SMEs in terms of growth in the number of companies and employment after 2010 can be caused by several factors, the first of which being the limited access of SMEs to funding, the SMEs being more dependent on the funding of foreign sources, mainly bank funding. According to Popa R.A. (2015) the manufacturing sector registered a high performance among all the sectors of Romania’s economy in attracting foreign direct investments. Also, in order to achieve the objectives of sustainable development, there is necessary, according to Moldovan I.A. (2015), a shift in the nature of investments, as current trends will not bring the desired results in this respect.

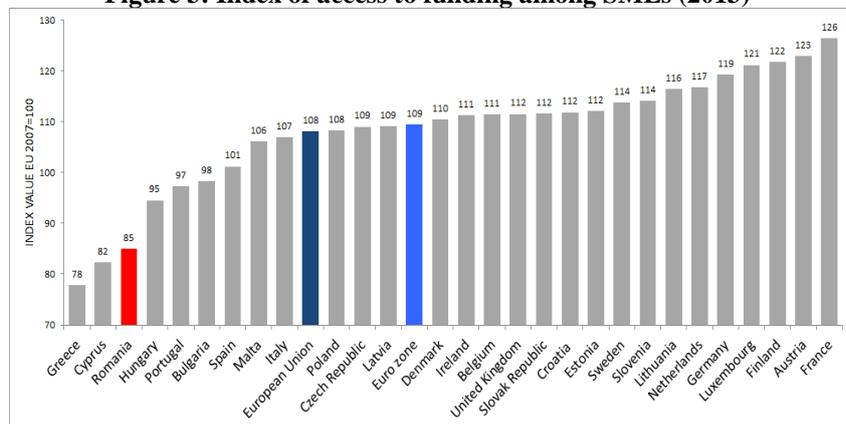
So far, in many member states the credit capacity of the sector of non-financial companies remained weak, the factors of offer and request being explicative elements. On the side of the offer, it can be mentioned the restructuring of the financial and banking sector and financial disintermediation that occurred as a result of the crisis. On the other side, the higher interest rates in the states that are vulnerable, need structural reforms and continuation of the fiscal consolidation process (including also a higher risk of default) can significantly affect the access of SMEs to credit on the part of banking sector.

In addition, it is considered that the limited access to funding is expected to reduce the number of *start-up* companies, what is worrying given that, among SMEs, the young companies have an important role in the creation of new jobs.

In Figure 3 it was presented the index of the access among SMEs created by the European Commission to follow the evolution way of the conditions of the access to funding of small and medium-sized enterprises over the time in the EU member states. The index has the base 2007 and is comprised of two sub-indexes: (i) a sub-index of the access to debt finance and (ii) a sub-index of the access to equity finance, venture capital or by business angels.

According to the values of this index, Romania has had in 2013 an extremely low access to funding, exceeding only the states as Cyprus and Greece, countries that dealt with bank crisis and more deeply difficulties of funding. Among the most important factors that impede the access of Romanian companies to bank funding are preponderantly the high debt rates and bureaucracy required to access a credit, compared with the EU average where the main obstacle is represented by the collateral and/or insufficient guarantees.

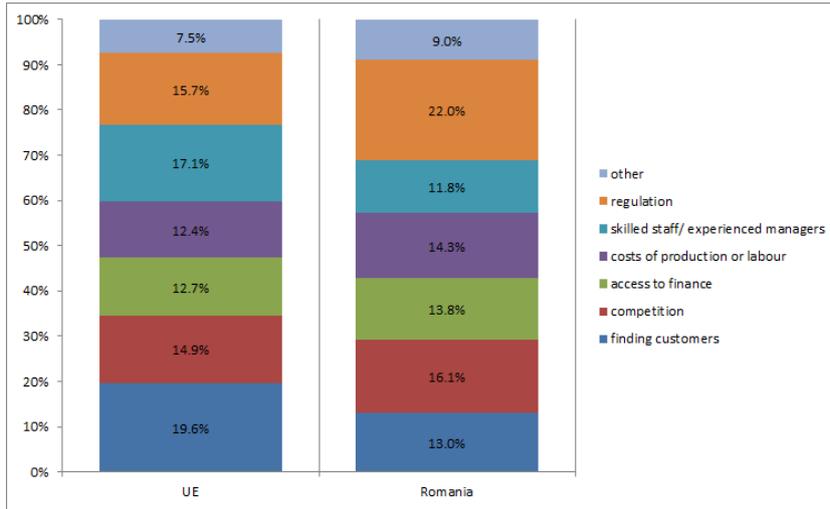
Figure 3: Index of access to funding among SMEs (2013)



Source: European Commission

Beyond the access to funding, the Romanian companies support that the main problems dealing with are represented by regulation, competition from other companies, as well as by production costs or the workforce. Unlike the perception from Romania, at European Union level, the main problem of enterprises is the lack of clients (see Figure 4).

Figure 4: The heaviest problems the companies deal with (2014)



Source: European Commission (2014)

3. The importance of SMEs in the social plan

Owning a share of 67% of the total number of the employees of Romanian companies, the development and performances of SMEs sector have also an important relevance for the improvement of living conditions and increase of social cohesion among population because the salaries have the greatest contribution to household income (see Table 3).

Table 3: The structure of total household income, on formation sources, in 2014, 1st trimester

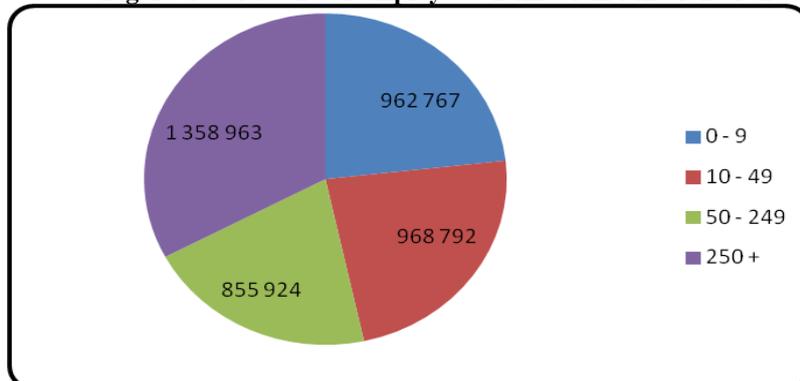
Category of income	Part of total household income
Money income	15.9%
Income from property and selling assets of the household	1.3%
Income from social performance	23.8%
Income from independent activities	2.5%
Income from agriculture	3.4%
Income from salaries	51.1%
Other income	2%

Source: National Institute of Statistics

Also a role in the increase of disposable incomes at the level of the individual it may also have the system of taxation and allocation of social benefits when the simple increase of the occupation rate does not necessarily ensure an increase of individual income.

From the point of view of the employees' structure number in function of the size of companies, it can be seen that 67, 22% of employees work in a SME, while in big-sized companies work only 32, 88% of employees (see Figure 4). Although the micro companies have over 90% of the total SMEs, these had at the level of 2014 only 962.767 employees, namely 34,53% of the total SMEs employees and only 23,21% of the total of employees.

Figure 4: Structure of employees' number in function of the size of the companies (2014)



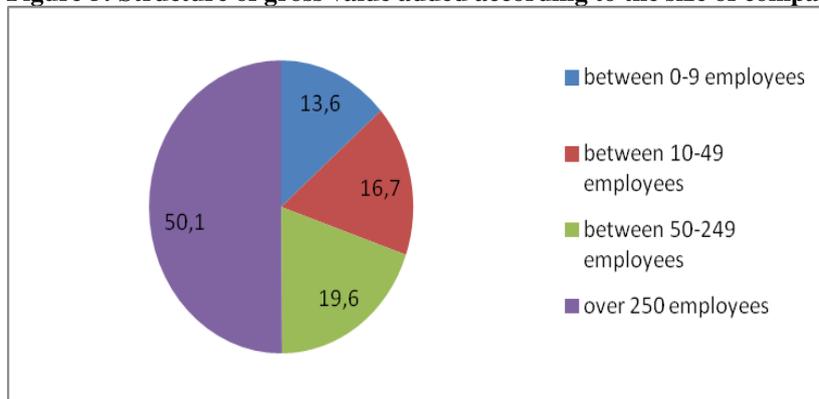
Source: European Commission. Eurostat

In addition to providing jobs, the SMEs are detached from importance and contribution point of view to the creation of gross value added.

Thus, these companies have created at the level of 2014 almost 50% of total gross value added, and the lowest part in the added value created by SMEs companies pertain to micro companies (see *Figure 5*).

In other words, although from economic point of view the SMEs are much more numerous than the big-sized companies; these ones have the same important contribution in securing jobs and creating the added value, as SMEs.

Figure 5: Structure of gross value added according to the size of companies(2014)



Source: European Commission. Eurostat

4. Conclusions.

In Europe, the increasing engine of the number of jobs is represented by SMEs, and our country is an economy dominated by the category of micro-enterprises. The poor performance of SMEs regarding the number of companies and employment after 2010 may be the consequence of numerous factors, first of them being the difficult access of SMEs to funding, the SMEs being more dependent on funding from foreign sources, mainly bank funding. So far, in many member states the credit capacity of the sector of non-financial companies remained weak, the factors of offer and request being explicative elements. On the side of the offer, it can be mentioned the restructuring of the financial and banking sector and financial disintermediation that occurred as a result of the crisis.

Taking into account the above mentioned, this analysis demonstrates that the development and the performances of the SME sector have an important relevance both for the improvement of living conditions and also for the increase of social cohesion among the population.

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