

## The Dynamics of Romanian SMEs within the European Context

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**Abstract:** *On a long term Romania's economic and social development potential looks quite promising thanks to the potential that SMEs pose and that must be encouraged and stimulated to capitalize current and potential business opportunities. The present paper gives an overview of Romanian SMEs within the European context, while analysing the number and proportion of firms and their employees, as well as the added value that the SMEs sector brings to economy. Similarly, the present paper analyses demographic evolution of SMEs and their density, regarded as a strategic indicator that reflects, from a quantitative perspective, the development stage of SMEs in Romania and in relation to the EU. The last section of the paper illustrates various aspects regarding the position that Romania occupies in the EC as to the implementation of the Small Business Act for Europe.*

**Key words:** SMEs, number of employees, added value, demographic evolution, density of SMEs, SBA for Europe.

JEL Classification: L25, L26, M10, M21, O10.

## 1. Introduction

In the last few years, Romania has made several important steps as regards the creation of a stable and predictable business environment; however, there is still more to do: the configuration of a legislative and institutional framework that offers premises for a favourable manifestation of the entrepreneurial spirit. The efforts that have been made so far must be continued because the existence of a stimulating and dynamic business environment, which is attractive to investors, and the development of SMEs, are fundamental premises that ensure a sustainable development for Romania, which must comply with the Europe 2020 Strategy.

The importance of SMEs in contemporary economy is generally acknowledged if we consider the multiple economic, technical and social functions which they accomplish. Of these, we would like to mention [2], [9]:

- SMEs bring a substantial contribution to the GDP: between 55% and 95%, in general;
- SMEs produce a large variety of goods and services, while substantially satisfying the demand on the market;
- SMEs support the activity performed by large and very large companies through outsourcing (parts, subsets and/or specialized services);
- SMEs create workplaces for most of the population;
- SMEs offer products and services at lower costs in comparison with large companies;
- SMEs represent the most dynamic sector of economy;
- SMEs contribute to the reduction of unemployment, while absorbing the

- laid off personnel through the reorganization of large companies;
- SMEs offer to many persons the possibility to achieve professional and social fulfilment, particularly to the most active and innovative segment of the population;
- SMEs manifest a high receptivity for the innovating phenomenon both as regards production, and also as regards the incorporation of inventions and innovations;
- SMEs are an important revenue source for the state budget (taxes, VAT, etc.);
- SMEs are the main vectors of knowledge-based economic development;
- SMEs are the basis of the future large companies, especially in new areas of economy, such as the most important domains of activity that rely on state-of-the-art technology.

Romania, as an EU member state, has a consistent economic and social development potential on a long term; this potential exists particularly at local level, where SMEs should be encouraged and stimulated to profitably and fairly capitalize their current and potential business opportunities for the benefit of Romanian society.

By 2020 building a national and viable entrepreneurial ecosystem will have allowed productive chains of SMEs, which are spread in all the regions of the country, to function in an interconnected manner; priority is given to those chains that have an increased potential of added value, such as clusters and poles of excellence or industrial networks or chains that provide high quality services.

Thus, it will be possible for the national entrepreneurial ecosystem to be built on

the reinforced structure of the SMEs sector, which has the capacity to significantly contribute to the sustainable development of Romania and, implicitly, to its social progress, as well as to the prosperity of all its citizens [7].

## 2. Romanian SMEs – proportion, distribution and demographic evolution

The general performances that SMEs have in Romania are measured and evaluated

with the help of three main indicators, i.e.: the number of firms, the number of employees and added value [Table 1, Table 2, Table 3]. According to the information published in “2014 SBA Fact Sheet Romania” [5], Romanian SMEs represent 99.7% of the total number of companies in the country; this percentage is comparable with the one recorded in the European Union on the whole, i.e. 99.8%.

Table 1: Number and proportion of enterprises in Romania and the EU-28, on size classes [5]

Indicator Size classes	Number of enterprises		
	Romania		EU-28
	Number	Proportion	Proportion
Micro	373944	87.4%	92.4%
Small	44682	10.4%	6.4%
Medium-sized	7669	1.8%	1.0%
SMEs	426295	99.7%	99.8%
Large	1455	0.3%	0.2%
Total	427750	100.0%	100.0%

Table 2: Number and proportion of employees in Romanian SMEs and the EU-28, on size classes [5]

Indicator Size classes	Number of employees		
	Romania		EU-28
	Number	Proportion	Proportion
Micro	931091	22.9%	29.1%
Small	929499	22.9%	20.6%
Medium-sized	848216	20.9%	17.2%
SMEs	2708806	66.7%	66.9%
Large	1349456	33.3%	33.1%
Total	4058262	100.0%	100.0%

Table 3: Added value created by enterprises in Romania and the EU-28, on size classes [5]

Indicator Size classes	Value added		
	Romania		EU-28
	Billion Euros	Proportion	Proportion
Micro	7	13.4%	21.6%
Small	9	16.3%	18.2%
Medium-sized	10	19.7%	18.3%
SMEs	26	49.4%	58.1%
Large	26	50.6%	41.9%
Total	52	100.0%	100.0%

Even though in the last few years we have witnessed an increase in the number of start-ups, small enterprises amount at 87.4% of the total number of firms that exist in Romania (in comparison with the level of 92.4% that is recorded at EU level); they supply 22.9% of the workplaces in the private sector (in comparison with the EU average of 29.1%) and contribute with 13.4 % to the creation of added value (in comparison with the percentage of 21.6% that is recorded at EU level).

Romanian small enterprises surpass the EU average as regards the share that they cover (10.4% in comparison with 6.4% in EU-28) and as regards their number of employees (22.9% in comparison with 20.6% in EU-28); however, they contribute with less as to the added value (16.3% in comparison with 18.2% in EU-28).

It is interesting to notice that medium size Romanian enterprises surpass the EU average level for all the three indicators.

Thus, Romanian medium-size enterprises represent 1.8% of the total number of companies (in comparison with the level of 1% recorded by EU-28); they ensure 20.9% of the workplaces in the private

sector (comparatively with the average level of 17.2% recorded by EU-28) and they contribute with 19.7% to the creation of added value (comparatively with the EU-28 average of 18.3%).

On the whole, the Romanian SMEs sector is situated under the EU average from the point of view of the three indicators that we considered in our analysis.

Differences are insignificant as regards the share of firms and employees number; however, a significant difference is recorded as to the contribution that the SMEs sector brings for the added value (49.4% in Romania, comparatively with 58.1% in EU-28).

The distribution of Romanian SMEs on economic branches is comparable with the average distribution recorded at EU level since most of these enterprises perform wholesale and retail activities, in the industry of civil engineering and in industrial processing activities.

In comparison with other EU member states, Romanian SMEs that are service providers pursue their activities in areas that require less specialized knowledge: whole and retail activities, rent and leasing activities, food, transport and courier services. [5].

Table 4: The total number of companies which were subjected to incorporation, suspension, dissolution and deregistration for 2008-2012 [7]

Year	2008	2009	2010	2011	2012
Incorporations	144,239	111,832	119,048	132,069	125,603
Suspensions	12,019	134,441	66,428	21,086	24,078
Dissolutions	3,762	30,105	8,191	11,660	22,500
Deregistration cases	17,676	43,713	171,146	73,244	71,746
I / SDR	4.31	0.54	0.48	1.25	1.06

The demographic evolution of SMEs is, on the one hand, illustrated by the total number of incorporated companies, and, respectively, by the number of companies that were subjected to suspension, dissolution and deregistration, on the other hand [Table 4] [8].

In 2008, 144,239 companies were incorporated, while the total number of companies that were subjected to dissolution, suspension and deregistration amounted at 33,457 firms.

In other words, for 4 companies that were incorporated in 2008, only one ceased its activity.

In 2009 and 2010, the number of dissolutions, suspensions and deregistration cases was double in comparison with the number of the incorporated companies due to the economic crisis.

The situation improved in 2011 and 2012, when the relation between the number of incorporated companies and the number of companies that ceased to perform their activity was around 1 (in 2012 a number of 125,603 companies were incorporated and a number of 118,324 companies ceased to pursue their activity).

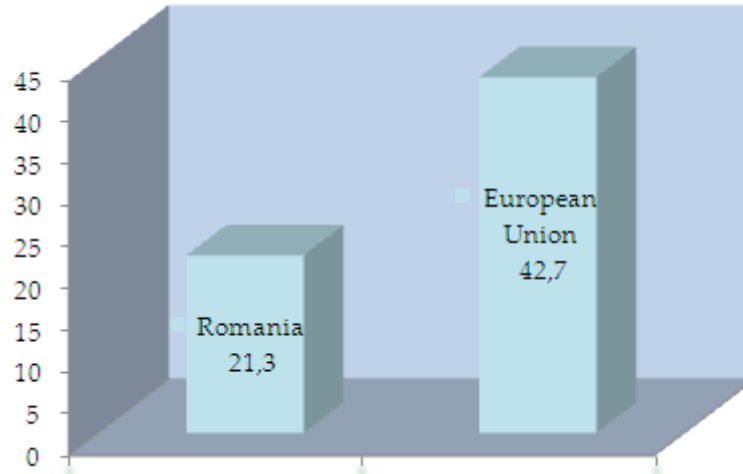
### 3. Density of SMEs

The strategic indicator that points out the development stage for SMEs in an economy is their density, respectively the number of active SMEs calculated in proportion to 1,000 inhabitants. This index provides essential information as to the efficiency of the governing policies which are meant to encourage and assist SMEs and, at the same time, it reflects the sectorial and regional trends [3]. At present, in Romania, SMEs density amounts at 21,3 firms/1,000 inhabitants, representing 49,88 % of the EU average, i.e. 42,7 firms/1,000 inhabitants [4].

One should remark that a year ago the density of SMEs in Romania was of 23 firms per 1,000 inhabitants, i.e. 56% of the average density recorded at EU level, which amounted at 41 firms per 1,000 inhabitants.

Analysing the density of SMEs territorially (see Table 5), one can notice that the region of Bucharest-Ilfov occupies the first position in the hierarchy, with a density of 50.23 firms/1,000 inhabitant, followed by the North-West region with a density of 24.35 firms/1,000 inhabitants and by the Central region whose density is of 23.54 firms/1,000

Figure 1. Density of SMEs in Romania in relation to the EU average



inhabitants. The last positions are occupied by the regions of South-Muntenia and North-East, in which the density of SMEs is of 16.10 firms/1,000 inhabitants and, respectively, 15.12 firms/1,000 inhabitants. One can notice that the hierarchy of the 8 development regions, as regards the density of SMEs, remains stable in time; however, one can also identify a significant gap between the first region, Bucharest-Ilfov, and the regions of

North-West, Centre and West, which occupy the next three positions. Similarly, one can spot a critical situation in the regions of South-Muntenia and North-East, where 32.27% of the total population of Romania lives, and which record the lowest density level for SMEs. The data comprised in Table no. 5 illustrate the major gaps existing between the eight development regions of Romania as to the entrepreneurial phenomenon.

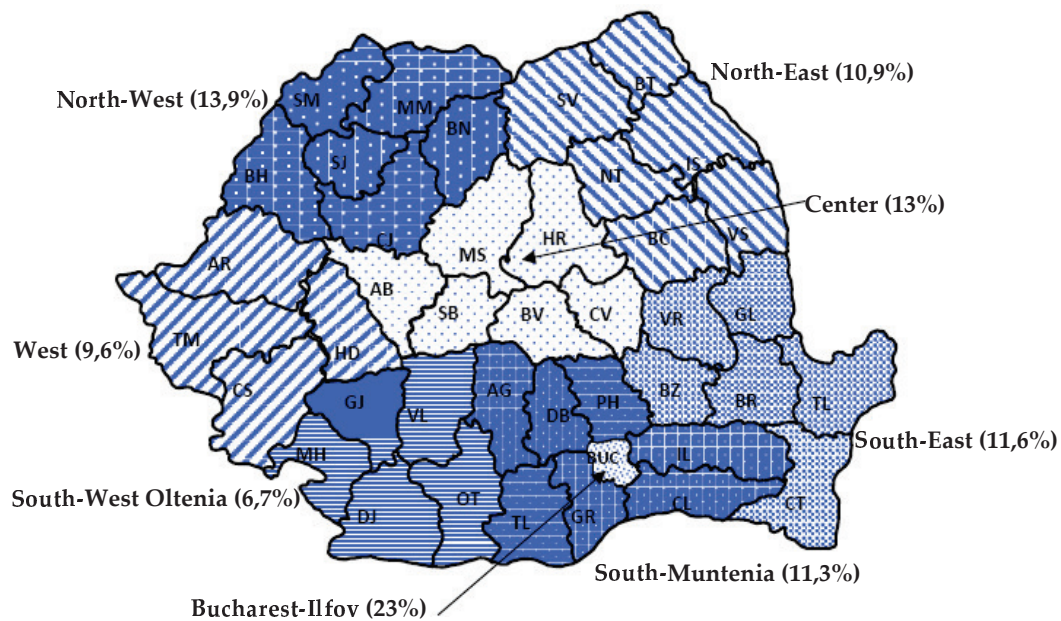
Table 5: Number and density of SMEs in the 8 development regions [8]

Region	Number of SMEs	Regional share of SMEs	Number of inhabitants	Density (no. of SMEs / 1,000 inhabitants)
BUCHAREST-ILFOV	102,577	22.69%	2,042,226	50,23
NORTH-WEST	60,758	13.95%	2,495,247	24,35
CENTRE	53,002	12.31%	2,251,302	23,54
WEST	40,594	9.41%	1,730,146	23,46
SOUTH-EAST	51,694	11.94%	2,399,604	21,54
SOUTH-WEST OLTENIA	32,532	7.48%	1,977,986	16,45
SOUTH-MUNTENIA	48,273	11.17%	2,998,679	16,10
NORTH-EAST	47,612	11.05%	3,148,577	15,12
ROMANIA	437,042	100%	19,043,767	22,95

As to the distribution of employees who perform their activity in SMEs, illustrated per regions of development (see Figure 2), one can spot the first position in the hierarchy for the region of Bucharest-Ilfov with 23%. In fact, almost a quarter of the total number of employees in SMEs in Romania work in companies that are located in this region, which also occupied the first position also as to the SMEs density. Actually, there is a natural correspondence between the two indices, the regions of North-West and Centre, which occupy the second and, respectively, the third positions as to the SMEs density, and as to

the share of employees. The West Region, which occupies the fourth position as to the SMEs density, is the first before last in the hierarchy as to the share of employees, a situation which is not accidental if we consider that this region has the lowest number of inhabitants of all the 8 regions of development. A critical situation exists in the North-East region, which occupies the last position as regards the SMEs density and which records only 10.9% of the total number of employees working for SMEs, though this region has the largest number of inhabitants of all the existing ones.

Figure 2. Regional distribution of the employees in SMEs (adapted in accordance with [7])



#### 4. Small Business Act for Europe

The European Commission adopted in 2008 a document entitled "Small Business Act" for Europe, the first ample frame of policies for SMEs within the EU and the EU member states [1]. The main goal of the "Small Business Act" for Europe is the adaptation of the general strategic approach to the entrepreneurial spirit in order to irreversibly impose the principle: "Think small first".

In order to successfully implement "Small Business Act" for Europe, the Commission suggested concluding a political partnership between the European Union and member states, which must observe the principles of subsidiarity and proportionality. "Small Business Act" for Europe promotes a set of 10 principles which are meant to guide the conception and application of public policies within the area of SMEs both at European Union level and at the member states level. The 10 principles are as follows [1], [5]:

- Entrepreneurship;
- Second chance;
- Think small first;
- Responsive administration;
- State aid & public procurement;
- Access to finance;
- Single market;
- Skills and Innovation;
- Environment;
- Internationalization.

As one can notice in Figure no. 3, the first principle, "entrepreneurship", is the only of the 10 principles where Romania exceeds the European Union average. The result is surprising if we consider that in Romania, the SMEs sector does not benefit from the

support and assistance offered to the other member states. Moreover, only 15.34% of the Romanian entrepreneurs consider that the economic environment is favourable to the development of businesses [10].

Consequently, one can state that in Romania there is a culture of the entrepreneurial spirit, a favourable attitude and a tendency towards the setting up of businesses and, at the same time, a tendency towards developing the existing companies, a fact which is an important premise for the consolidation of the SMEs sector for the next period. Similarly, in May 2014 a new law was passed on SMEs, which introduced the compulsory application of the SMEs test that creates an evaluation group for estimating the economic impact of regulations regarding SMEs and, at the same time, allots about 0.4 % of the annual GDP for programs that support the SMEs sector in Romania.

#### 5. Conclusions

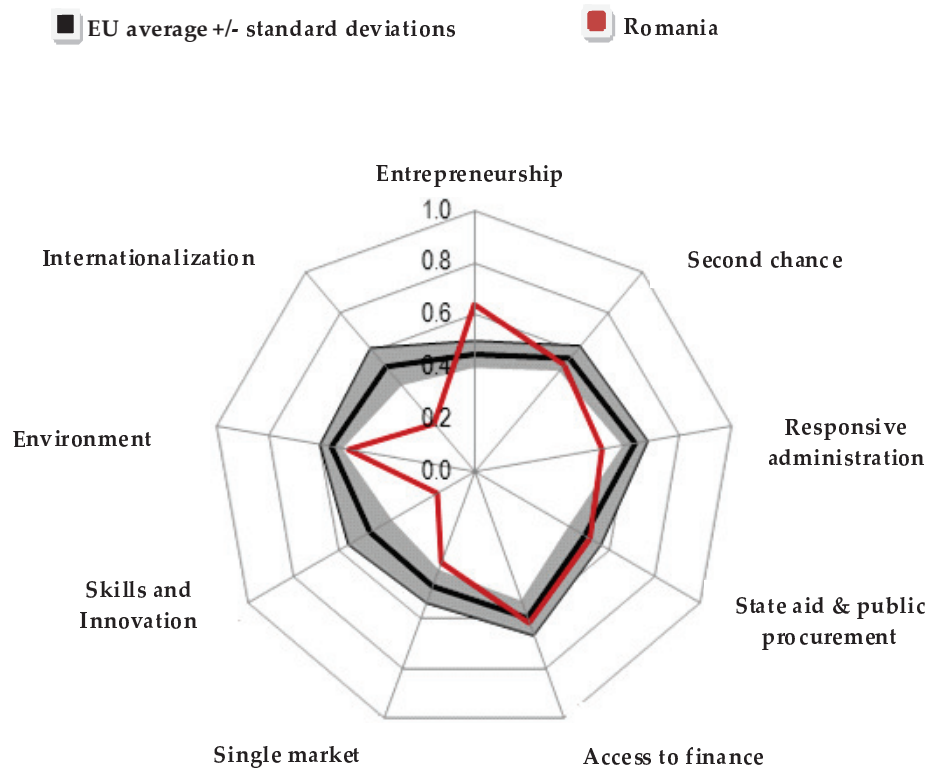
Building a national viable entrepreneurial ecosystem by 2020 will ensure an interconnected functioning of the production SMEs chains, which exist throughout the country; priority is given to chains that have an increased added value potential, such as the clusters and the poles of excellence or industrial networks or the networks that provide high quality services.

The overall performance of Romanian SMEs is measured and evaluated in accordance with three main indicators, i.e.: the number of firms, the number of employees and added value.

Differences are insignificant as to the share of the SMEs and the number of employees; however, there is a significant gap



Figure 3. Principles of the “Small Business Act” for Europe. Comparison between Romania and the European Union



as to the contribution brought by the SMEs sector for added value (49.4% in Romania, comparatively with 58.1% in EU-28).

The distribution of Romanian SMEs on economic branches is comparable with the average distribution recorded at EU level; most of the SMEs pursue commercial activities, such as wholesale and retail activities, and provide services in the processing industrial activities, as well as in civil engineering.

The density of SMEs is a strategic indicator, which provides essential information as to the efficiency of governmental policies designed for encouraging and assisting SMEs; this indicator also illustrates sectorial and regional tendencies. In Romania, the density of

SMEs records a value of 21.3 firms/1,000 inhabitants, representing 49.88% of the average recorded at EU level, which amounts at 42.7 firms/1,000 inhabitants.

The “entrepreneurship” principle, of the total number of 10 principles that are provided by the Small Business Act for Europe, is the only one for which Romania is classified above the EU average. One could say that in Romania there is an entrepreneurial culture, a favourable attitude and an orientation towards the setting up of businesses, as well as towards the development of the existing ones; this fact is an important premise for the reinforcement of the SMEs sector in the next period.

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