

## THE EVOLUTION OF THE ROMANIAN SMEs AFTER ROMANIA'S INTEGRATION IN THE EUROPEAN UNION STRUCTURES

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### **Abstract**

*The analysis of the evolution of SMEs has become a distinct field of research and even of utmost topicality in the light of the latest scientific approaches developed on this matter, which is based on the fact that the Europe 2020 strategy and the European economy focus on harnessing the potential of small and medium-sized enterprises (SMEs). They are the backbone of the economy in all countries, and the European Union's experience shows that the SME sector can make an essential contribution to the gross domestic product (GDP) and reduce unemployment (60% of the GDP and about 70% of the total labor force). In the last period, entrepreneurship has created a unique context that offers to all those interested a favorable environment for the development of entrepreneurial activities that go beyond institutional barriers. This paper presents a specific situation based on the evolution of the Romanian SMEs in the context of the integration into the European Union sphere of influence, and implicitly a systematic centralization of the main indicators and the activity sectors of SMEs, in a comparative manner, according to the European model described in the literature. With the integration of Romania into the European Union, new opportunities have been created, focusing on increasing the competitiveness of SMEs through research and innovation, and implicitly the access to non-reimbursable financing.*

**Keywords: entrepreneurship, Romanian SMEs, structural funds, indicators, European Union.**

### **1. Introductory theoretical aspects**

According to the consulted literature, the term of entrepreneurship is perceived as a slippery concept because of the fact that the four core terms: entrepreneur, entrepreneurial, entrepreneurship and enterprise are each open to different interpretations. From this perspective, in order to avoid confusion it is important to recognize the different meanings that other people attribute to these terms and to make your own definitions and assumptions

clear. The term entrepreneurial activity is defined “an enterprising human action in pursuit of the generation of economic and social value through the creation or expansion of economic activity, by identifying and exploiting new products, processes or markets and by meeting outstanding social and environmental needs”. The entrepreneurship is described as “the phenomenon associated with entrepreneurial activity. It involves a complex pattern of social interactions that extends beyond individual entrepreneurs to incorporate teams, organizations, networks and institutions” (Blundel, Lockett, 2011, pp. 6-7). There are, also, “two major dimensions of entrepreneurship and those are *mindset* (also comprising capacity) and *action* (or process), both being essential to its success in the market” (Racolța-Paina, 2016, pp. 24-25). After the famous scientist, Peter Drucker, quoted by Nelu Eugen Popescu, “the entrepreneurs innovate and innovation is the specific instrument of entrepreneurship” and the entrepreneurship is defined as “an act of innovation that involves endowing existing resources with new wealth-producing capacity” (Popescu, 2014, p. 512). He highlights that small businesses represent the main catalyst of the economic growth.

The European Commission, through the Recommendation no. 361/2003/EC, defines micro, small and medium-sized enterprises as those entities that meet the following classification criteria, presented in the table below:

**Table 1: Definition of SMEs**

Company Category	Employees	Turnover	Balance sheet total
Micro	< 10	< €2 million	< €2 million
Small	< 50	< €10 million	< €10 million
Medium - sized	<250	< €50 million	< €43 million

Source: (Hope ed., 2017, p. 11)

As shown in Table 1, in Romania, and also in the European Union, a small enterprise is a company that has up to 49 employees, and within it the micro-enterprise is defined (1-9

employees). The medium-sized enterprise has a number of employees ranging between 50 and 249. Companies with over 250 employees are considered to be large enterprises.

In the views of Mariana Man and Maria Macris, comparing the definition of the SMEs in Romania with the one from the European Union, they are the same in terms of the number of employees and the Romanian's definition is more restrictive, its maximum level being of 8 million euro irrespective of the classification of the enterprises into one of the three categories (micro, small and medium-sized). At the same time, the Romanian law considers as independent enterprises only those SMEs that are not held in a proportion greater than 25% of the share capital or of the voting rights by a different firm or by various other firms that do not belong to the category of small and medium-sized enterprises (Man, Macris, 2014, p. 665).

Taking into account the annual report of the European SMEs for the period 2016-2017, one can note that 0.2% of enterprises which operated in the EU-28 non-financial business sector in 2016 were SMEs. These SMEs employed 93 million people, accounting for 67% of total employment in the EU-28 non-financial business sector, and generating 57% of value added in the EU-28 non-financial business sector. Almost all (93%) of the SMEs were micro SMEs employing less than 10 persons. After declining for a number of years following the 2008/2009 economic and financial crisis, EU-28 SME employment has picked up more recently and has outshone the economy as a whole. EU-28 SME employment grew by 5.2% from 2013 to 2016, almost 50% faster than overall employment in the EU-28 economy over the same period.

In 2016, SMEs in the EU-28 non-financial business sector accounted for: almost all EU-28 non-financial business sector enterprises (99.8%); two-thirds of total EU-28 employment (66. %); and slightly less than three-fifths (56.8%) of the value added generated by the non-financial business sector. Micro SMEs are by far the most common type of SME, accounting for 93.0% of all enterprises and 93.2% of all SMEs in the non-financial business sector. The micro SMEs account for only 29.8% of total employment in the non-financial business sector, while small and medium-size SMEs accounted for 20.0% and 16.7% respectively of total employment. (Hope ed., 2017, pp. 11-12).

According to the same source, SMEs are expected to continue their relatively steady pace of growth in 2017 and 2018. EU-28 SME employment is forecast to increase by 1% in 2017 and 0.9% in 2018, and EU-28 SME value added is predicted to grow by 2.5% in 2017 and 3.8% in 2018 (Hope ed., 2017, p. 7)

## **2. The evolution of the Romanian SMEs after the integration into the European Union**

After Romania's integration into the structures of the European Union, the SME sector as a whole experienced a new phase of development despite the difficulties they faced in adapting to the structural and cyclical changes of the global economy. The entire range of measures that favored the increased number of newly established companies contributed to the creation of a legislative and fiscal corpus that supported the development of SMEs, implicitly improving competitiveness and stimulating the development of an upstream entrepreneurial environment. Given the major importance of SMEs in the economy of each member state, the European Union has adopted the Small Business Act (SBA) in June 2008, which is the first SME policy framework that has created a favorable climate for promoting entrepreneurship and SMEs. The strategy of the European Commission in favor of the SMEs aims to apply the principle "*Think small first*" in order to simplify their business environment. This policy focuses on five priority domains, covering the following areas: promoting entrepreneurship and skills; improving the SMEs' access to the markets; simplifying the legislation; optimizing the SMEs' growth potential; and consolidating the consulting process and the dialogue with the SMEs (Popescu et al, 2012).

By taking into consideration the influence of Romania's integration into the European Union structures, the changes within SMEs were identified in several areas: human resources; quality and competitiveness requirements; business ethics. According to specialists in the field, some of the characteristic features of the Romanian SMEs after integration can be summarized as follows: an average information level of SMEs focused on new regulations according to an assessment exceeding 76.49%, only 15.8% of the SMEs having an appropriate level of information. The positive impact of the integration on the SMEs activity is generated by a better market access (46.41% of SMEs), by the existence of better and

cheaper potential suppliers (indicated by 36.49 % of SMEs), the access to structural funds (indicated by 32.85% of SMEs), an easier access to new technologies (22.75% of SMEs), more accurate procurement procedures (indicated by 12.19% of SMEs), a better cooperation towards innovation (indicated by 10.74% of the SMEs). Romania's integration in the European Union was perceived as a major opportunity by 46.67% of the SMEs, only 9.18% of them considering it as a major threat.

Approximately two thirds of the Romanian SMEs face difficulties generated by the country's integration into the European Union: increased competition (indicated by 67.52% of SMEs), increased labor costs (64.25% of SMEs), the costs of adapting to the *acquis communautaire* (indicated by 59.63% of SMEs), labor migration (indicated by 54.62% of SMEs) (Culiță, 2010, pp. 77-78).

The SMEs sector in Romania started to develop and to grow, especially the year 2000. The economic developments show that until 2008, the number of SMEs in our country registered a strong increase, mostly during the 2000-2008 period, when the growth rate was about 7% per year – approximately 20,000- 30,000 new SMEs every year (Duma, 2012, pp. 131-134). Afterwards, in the period 200-2010, the SME sector was one of the most affected by the economic and financial crisis.

In the views of Nicolescu O., Haiduc I.C., Nancu D., the absorption of the crises impact was mostly achieved through the following channels: the foreign trade channel, a consequence of restricting the main export markets of Romanian markets; the financial channel in the context of reducing the foreign private credit lines from the parent-banks; the confidence channel by increasing the foreign private credit lines from the parent-banks; the confidence channel by increasing the foreign investors caution towards the emerging markets; the exchange rate channel because of the pressure of the Romanian currency depreciation and the channel of wealth and balance sheet effect, in the context of significant reduction of the value of many categories of assets (Man, Macris, 2014, p. 666).

From 2008 to 2010, the SME sector was estimated to have increased its workforce by 0.7 % while its combined added value shrank by 3.8 %. For 2011, forecasts point towards a growth of 2.3 % in the number of SMEs, 7.1 % in gross value added and of only 1 % in employment. SBA performance: Romania scores below or on par with the EU average for

most SBA principles, but six of these areas show progress over time. SBA Action: In 2010/2011, Romania addressed seven out of ten SBA areas through targeted policy measures, the main focus being entrepreneurship and access to finance. (“Small and medium sized enterprises: the situation in EU Member States 2010”, Brussels, 4 October 2011) In the period 2009-2011, the analysis of the entrepreneurial phenomenon highlights the fact that 44.44% of the SMEs have reduced their activity, 42.87% of them maintained the same activity and 12.69% have increased their activity (Năftănăilă, 2011, p. 29).

The structural funds have been designed to reduce economic and social disparities between the regions of the country and achieve economic and social cohesion. Thus, the national framework for supporting SMEs after the integration consisted of the following programming documents: the National Development Plan 2007-2013; the National Strategic Reference Framework and the Operational Programmes; the National Reform Programme 2011-2013 (NRP); the Governmental Strategy for the Development of the SME sector 2009-2013; the Action Plan afferent to the Government’s Strategy for the Development of the SME sector 2009-2011; the Governmental Strategy for the Improvement and Development of the Business Environment 2010-2014; the fiscal – budgetary strategy of the Romanian Government 2011-2013.

The Governmental Strategy for the Development of the SME sector 2009-2013 aimed at achieving the following strategic objectives: improving SMEs’ access to financing; encouraging the innovativeness within SMEs and increasing their competitiveness; simplifying and improving the regulatory framework in the fields of SMEs and co-operation; the development of the entrepreneurial education system; improving SMEs’ participation in the internal and third markets (Pîslaru, Modreanu, 2012, p. 33). Within the “Governmental Strategy for the development of the SME sector”, during the period 2009-2013 it is highlighted that a series of weaknesses of the SME sector in Romania may prevent the diminution of certain threats from the economic environment. Among these there are: the precarious entrepreneurship education hindering the access to the financing lines and to external markets (because of the SMEs vulnerabilities in front of the increased market concurrence and of the low availability of bank credits); The existence of a low technological level and of a low competitiveness increasing

the SMEs' vulnerability in front of the general decline of the demand and of the increased concurrence on the external market. (Popescu et al, 2012).

### 3. The comparative analysis of the Romanian and European SMEs – the main indicators

According to the annual report published by the SBA (Small Business Act for Europe) in 2017, as shown in Table 2, the Romanian SMEs accounted for 99.7% of the total active enterprises in the country's economy, thus dominating the micro-enterprises with a number of 412452 entities (88.5%), concentrating a number of 915629 employees (23.1%), and having a value added of € 11.7 billion (20.9%). By comparison, large enterprises represent only 0.3%, with 1333133 employees, accounting for 33.4% of the total number of employed persons, and with a value added of € 30.9 billion (43.2%). By analyzing the number of employees hired in the Romanian SMEs, one can notice that the situation in our country is similar to the European one, with a percentage difference of only 0.2% (in Romania is 66.4%, while in the European Union 66.6%).

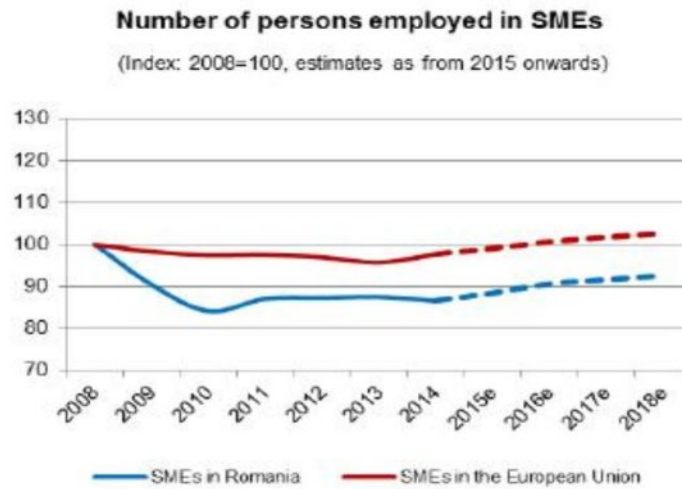
**Table 2: The analysis of the main indicators of the SMEs in Romania and the European Union**

Class size	Number of enterprises			Number of persons employed			Value added		
	Romania		EU-28	Romania		EU-28	Romania		EU-28
	Number	Share	Share	Number	Share	Share	Billion €	Share	Share
Micro	412 452	88.5 %	93.0 %	915 629	23.1 %	29.8 %	11.7	17.9 %	20.9 %
Small	44 012	9.4 %	5.8 %	886 830	22.4 %	20.0 %	11.1	16.9 %	17.8 %
Medium-sized	7 945	1.7 %	0.9 %	831 804	21.0 %	16.7 %	11.8	18.0 %	18.2 %
<b>SMEs</b>	<b>464 409</b>	<b>99.7 %</b>	<b>99.8 %</b>	<b>2 634 263</b>	<b>66.4 %</b>	<b>66.6 %</b>	<b>34.6</b>	<b>52.8 %</b>	<b>56.8 %</b>
Large	1 571	0.3 %	0.2 %	1 333 113	33.6 %	33.4 %	30.9	47.2 %	43.2 %
<b>Total</b>	<b>465 980</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>3 967 376</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>65.6</b>	<b>100.0 %</b>	<b>100.0 %</b>

These are estimates for 2016 produced by DIW Econ, based on 2008-2014 figures from the Structural Business Statistics Database (Eurostat). The data cover the 'non-financial business economy', which includes industry, construction, trade, and services (NACE Rev. 2 sections B to J, L, M and N), but not enterprises in agriculture, forestry and fisheries and the largely non-market service sectors such as education and health. The following size-class definitions are applied: micro firms (0-9 persons employed), small firms (10-49 persons employed), medium-sized firms (50-249 persons employed), and large firms (250+ persons employed). The advantage of using Eurostat data is that the statistics are harmonised and comparable across countries. The disadvantage is that for some countries the data may be different from those published by national authorities.

Source: European Commission, 2017.

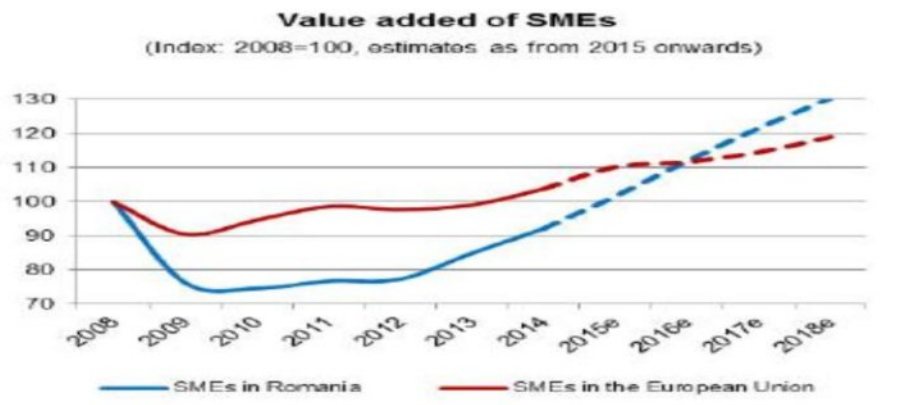
**Fig 1: The evolution of employees in the Romanian and European SMEs**



Source: European Commission, 2017.

Romanian SMEs provide roughly two thirds of all jobs in the non-financial business economy and account for 52.8 % of total value added. In terms of value added, this is slightly less than the EU average. SMEs in Romania employ 5.7 people on average, compared to the EU average of 3.9. Productivity of Romanian SMEs, defined as value added per person employed, is less than one third of the EU average. Romanian SMEs' value added increased by 44.6 % between 2012 and 2016. Micro firms performed particularly well, with an 86.6 % increase in value added. SME employment grew by 3.9 % from 2012 to 2016, with 2.6 % growth in 2016. The forecast shows that in 2016-2018 value-added growth of about 16.5 % is expected in all SME size classes. The outlook for SME employment is somewhat weaker, with projected growth of 2.2 % in the same period. Overall, 59.200 new jobs are predicted to be created in SMEs between 2016 and 2018, almost all of them in micro firms and small firms.



**Fig 2: The evolution of the value added of SMEs**

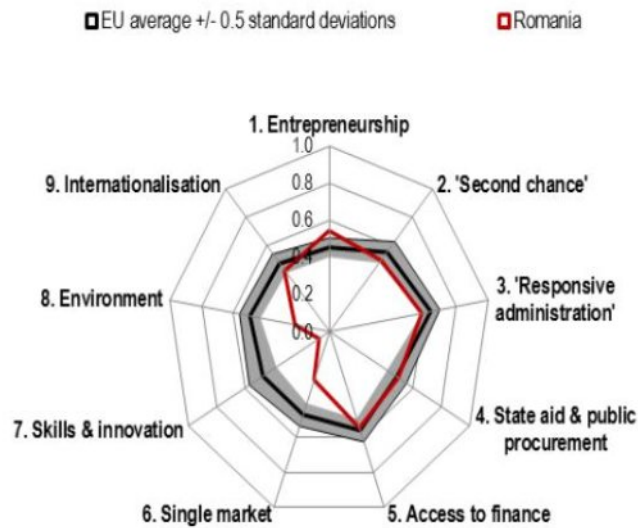
Source: European Commission, 2017.

To meet the requirements of the European Union, the national authorities promoted specific initiatives to permanently improve the access of SMEs to finance (mainly through multiannual programmers). These were complemented by other specific tools addressing the needs of SMEs, such as loans, European Fund for Strategic Investments (EFSI) financing, guarantee funds, tax incentives, tax reductions, legislative measures, crowd funding and business angels. As shown in Fig. 3, the areas which saw the most significant progress in 2016 and the first quarter of 2017 were skills & innovation, followed by ‘responsive administration’ and access to finance. More specifically, five measures were implemented under the skills & innovation principle. Three of these focused on increasing financial support for the development of research and innovation (from the national budget and structural funds for research, development and innovation), while two fiscal measures aimed at increasing incentives for research activities (<https://ec.europa.eu/docsroom/documents/29489>).

Another interesting measure is the Start-up Romania Nation Programme, which encourages and stimulates the creation and development of small and medium-sized enterprises, implemented by the Ministry of Business Environment, Commerce and Entrepreneurship (MMACA) through the Territorial Offices for Small and Medium-Sized Enterprises and Cooperatives (OTIMMC). Other objectives of the above mentioned programme are: to improve the economic performance of the Romanian SMEs; to create new

jobs; to include disadvantaged people, unemployed people and graduates in the labor market; to increase investments in new innovative technologies. The programme has been implemented throughout Romania, in all 8 development regions.

**Fig 3 SBA profile**



Source: European Commission, 2017.

The SMEs' growth remains a research topic that, during the last six decennia, has generated a large number of papers, mainly focused on the importance of this phenomenon for the creation of jobs and for the economic dynamics. As a tendency, the epistemological approach of the different researches had for a goal the identification of the growing SMEs' peculiarities, as well as bringing to light certain features highlighting the development potential or the impact of the endogenous and exogenous variables of this potential.

### **Conclusions**

Under a changing economic environment, SMEs are flexible and have a large capacity to adapt, favored by their small size and rapid decision making process. They easily adapt to the requirements and exigencies of the consumers, being closer to the market. Also, SMEs generate to a large extent the technical innovations in the economy. Through their features, SMEs offer certain advantages in the economy that large companies do not have

(social capital, lower entry and exit costs). In the light of the information presented in this study, we can conclude that the overall SME sector is a major driver of economic growth across all European countries, which explains the joint public policies initiated by the authorities in order to re-launch the economy, taking into account the SME contributions in the overall economy and to diminish the existing gaps between member states.

Among the problems currently faced by SMEs, one can mention the high costs of contracted loans and their poor return capacity. The non-reimbursable funding through European funds is an alternative to supporting the development of SMEs. The highlighted issues are generated by too bureaucratic procedures; lengthy processes from the submission of projects until their implementation; the modification of financial procedures and sharpening the controls on entities that access such structural instruments.

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