

Reflections on the Competitiveness of Small and Medium Enterprises in Romania

Ludmila (RAILEAN) PĂUNESCU¹

ABSTRACT

The issue of competitiveness has become a hot topic at each actor of the economy from the economic regions to that of any organization. For these reasons, the owner or manager is interested in taking action on the development of small and medium sector, and thus, increase its competitiveness. Given the set, in this paper, we propose to determine and to highlight details of the actions undertaken or planned by government and local authorities to support the creation, development and strengthening of SME's, as a reflection of the recognition of the important role they play in the process of development.

KEYWORDS: *competitiveness, the difficulties SME's, courses of action, development, measures*

JEL CLASSIFICATION: *M10, L11, L21.*

INTRODUCTION

In a world marked by exacerbation of fighting competition, rapid adaptation to changes in the economic environment has become a major strategic stake for small and medium enterprises. The globalization of markets, ever closer interdependence between actors in the game by altering the conditions of competition are forcing companies to transform their competitiveness and the foundations of their economic performance. A large proportion of SME's must respond to these challenges and provide competitive goods and services, adapting and combining factors of production quality and accelerating change in nature. In other words, the increase SME competitiveness, as well as for large enterprises, is an categorical imperative.

The dynamism, flexibility to adapt, resistance to the crisis traits SME's are considered essential for the cohesion of the fabric of economy, for economic growth and job creation. This explains that the concentration of economic activity is often reversed in favor of small production units, whose role is major restructuring of industries in balance activities on national territory. SME's have the capacity to mobilize all categories of resources to be competitive.

1. THE DIFFICULTIES OF SME'S IN ROMANIA

In designing and developing the main lines of action to support the SME sector we have considered two items. First, we consider the main challenges facing the SME sector since 1990, looked at both in terms of content and of evolution: attenuation over time of

¹ The University of Craiova, Romania, E-mail liudarailean@yahoo.com

legislative and institutional difficulties by applying appropriate measures; and, while deepening the difficulties of access to financial resources, materials and informational. From this dual perspective we followed design and development off the courses of action depending on the areas that have experienced difficulties (Table 1).

Table 1. The main types of difficulties faced by the SME sector and appropriate courses of action

No.	Difficulties	Action Guidelines
1	Legislative	Creating a uniform and stable legal framework
2	Institutional	Specialized organization on the SME's sector
3	Finance and banking	Providing of financial and banking facilities
4	Tax	Providing fiscal facilities
5	Information	Providing advice and information services
6	On access to infrastructure	Ensuring priority access to public services, assets and public acquisitions
7	Managerial	Ensuring managerial preparation of entrepreneurs

Source: Popescu, D. (2001), *Competitiveness of small and medium enterprises*, Bucharest, Publishing Economică, p.183

In the proces of creation and development of SME's over the last decade have been a series of barriers mainly related to economic and political situation in the country, respectively all the facts and circumstances that were directly dependent on political decisions and international issues. At some point the situation was favorable, for example when the consumer needs were great, and the national currency has reached a certain level of stability. On the other hand, the governments have promoted some political decisions, which in the same conjuncture were in favor some businesses in detriment of others.

Here we can mention the poor managerial capacity of entrepreneurs. Thus, we frequently encounter cases where managers had good ideas but they didn't know how to materialize this in practice, because they could not evaluating corectly the costs and the effects.

As shown in Figure 1, SME's are faced with decreasing domestic demand, which is 62.06%.

Year 2009 has ruined many of the strategies of SME's in Romania, due to global economic crisis. More than half of companies expect to have inferior results compared to 2008, compared to the perception of a year ago, when only 6.5% of these companies thought they would end up with turnovers and decreasing profits, shown in study in "White Charter of Romanian SME's in 2009" conducted by the National Council of Private Small and Medium Enterprises (CNIPMMR). According to the study in 2009 has changed optical SME's about the difficulties facing the market. Thus, the main problem is now decreasing of domestic demand, which affects 62% of SME's, while in 2008 31% of them are hit by this impediment (Typography Romania, 2009).

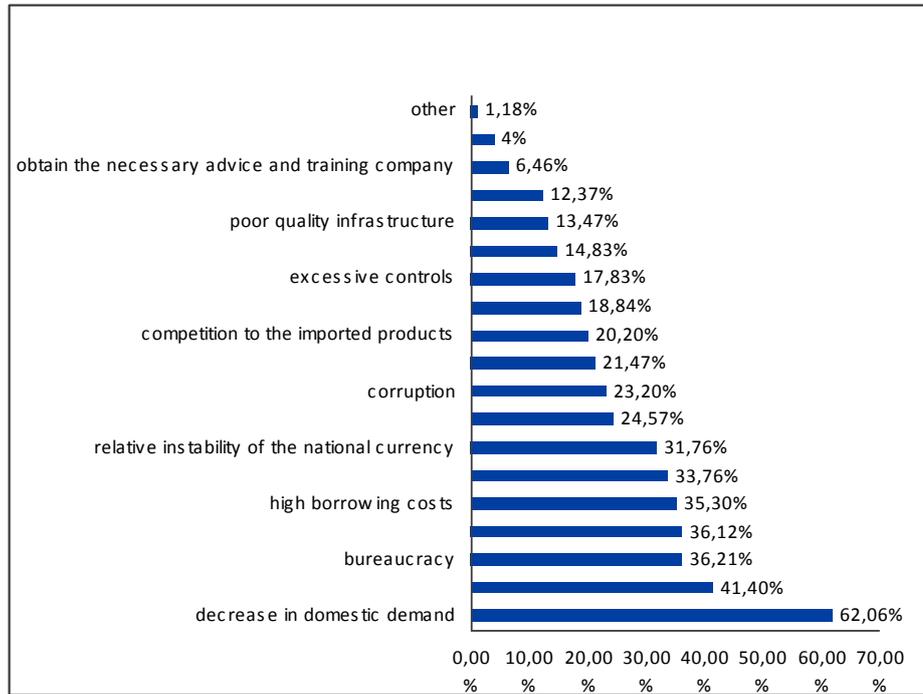


Figure 1. Difficulties faced by SME's in 2009
 Source: White Charter of Romanian SME's in 2009

The examination of the most frequent difficulties depending of economic sectors in which SME's fits, outlines the following:

- because of bureaucratic difficulties encountered by companies, SME's in the construction sector (29.20%) recorded a lower percentage than SME's in the services sector wich recorded the highest percentage of 39.08%;
- delays in collecting bills from private companies occur more frequently in construction sector (44.25%) and less in tourism enterprises (16%);
- as is observed that domestic demand fell by 60.18%, being a serious difficulty facing the construction sector, followed by delays in collecting bills from private companies (44.25%).

The main "weakness" (Nicolescu, 2006) specific to SME's are:

- built-mass resources and small reserves that have reduced;
- the company's dependence on a single person, entrepreneur;
- insufficient consideration of its specific interests and characteristics of power by environmental factors;
- technical level often lower than large firms;
- stability and perennial more "volatile" because of previous features.

In Figure 2 below is present the factors that influence the development of SME's sector.

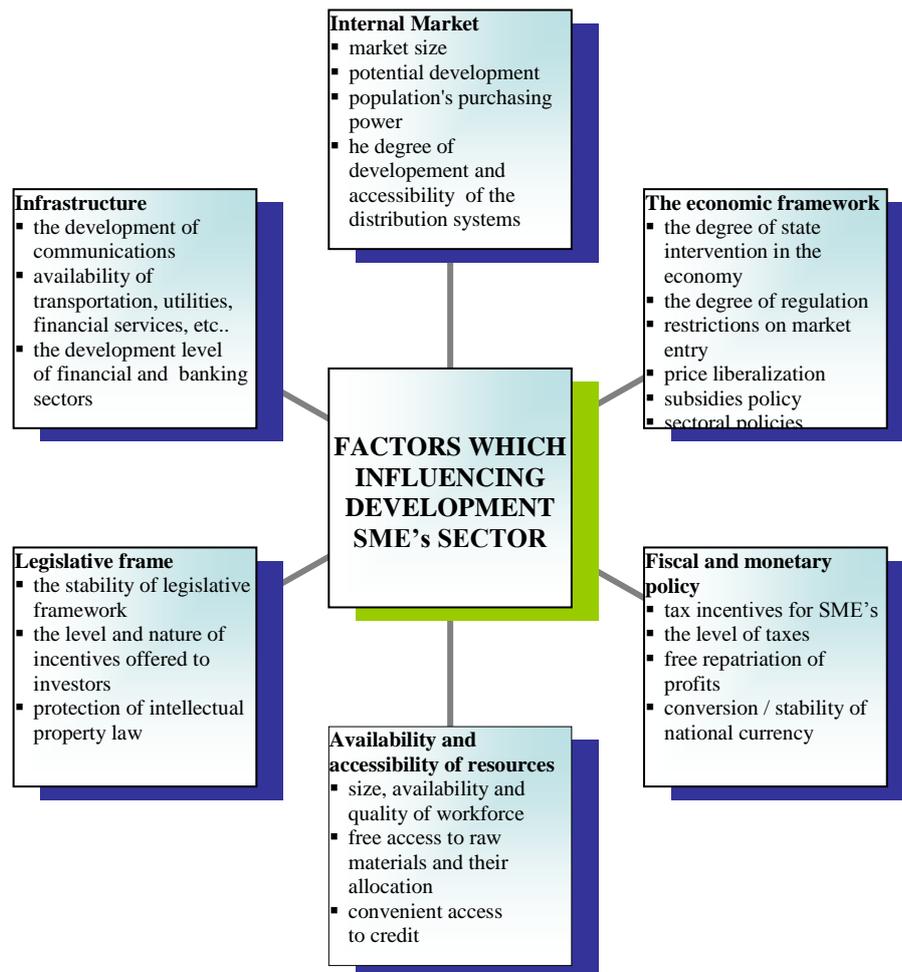


Figure 2. Factors influencing the development of SME sector

Source: adapted from Roland Berger (1997)

From Figure 2 we see that there are many factors both within the economic, monetary, fiscal and legislative which have a significant influence on the company. For this reason we tried that in the following the main lines of action to develop a realistic and focused manner, allowing widening sentient development prospects of the SME sector.

If examine contextual factors what have negatively impact on SME's by sector of activity (Table 2), we find the following significant items (Nicolescu, 2009):

- the corruption, policy of IMF / World Bank to Romania and military conflicts have a bigger impact in sector of construction SME's;
- insufficient predictability of the environment is indicated in higher proportion in the industrial units;
- excessive bureaucracy and ethnic disputes are most often reported by companies in the tourism sector.

Table 2. Differentiating negative perception of developments contextual influences on SME's grouped by sector of activity

No	Events that negatively affect the activity and performance companies	SME's by industry					
		Industry	Construction	Trade	Tourism	Transport	Services
1	development of legislative framework	52,19%	52,21%	51,20%	32%	65,57%	48,74%
2	climate and social tensions	24,12%	23,89%	29,19%	24%	37,70%	25,21%
3	policy changes in country leadership	21,93%	23,89%	23,68%	16%	27,87%	22,69%
4	IMF and World Bank policy towards Romania	18,86%	19,47%	14,83%	12%	18,03%	18,49%
5	corruption	30,26%	36,28%	33,49%	28%	31,15%	29,41%
6	ethnic tensions	3,51%	4,42%	11,24%	12%	9,84%	5,88%
7	excessive bureaucracy	45,61%	40,71%	44,98%	56%	50,82%	45,80%
8	lack of environmental predictability	43,42%	29,20%	28,47%	24%	22,95%	34,45%
9	Military conflicts	2%	2,65%	1,20%	0%	3,28%	0,42%

Source: White Charter of Romanian SME's in 2009

2. WAYS TO SUPPORT SME'S IN ROMANIA

In order to support the SME sector, providing for a series of concrete measures directed on the following major directions:

- creating a favorable environment for creation and development of SME's through: simplification of administrative procedures, promoting SME's access to public services the current unused by state companies, at public procurement, increasing the provision of free services or free information advisory assistance;
- financing for development programs;
- providing economic and financial facilities, tax and banking incentives.

Thus, we detail for each major guideline support arrangements as follows:

1. Creating a uniform and stable legal framework

Ensuring an uniformity and stability of the legal framework is the premise that operational guidelines. In extremis, one must avoid making political and legal measures that could deter entrepreneurship.

SME sector specific legislation must consider the protection of entrepreneurs, mainly in their relations with the state, through (Popescu, 2001):

- simplifying the formalities required for the creation of SME's, evidenced by the statutory procedure in completing a single form and submitting it to the Trade Register;
- transmission by the Trade Register Office to the empowered institutions all necessary information required, obligatory for registration, for new's SME's (ex:taxes, CAS, etc.);
- assist SME's in obtaining approvals and permits required by the official support of the chambers of commerce and industry;
- simplification the procedures for the subsequent amendments to the act of setting it up;
- initiate and develop cooperation between chambers of commerce and industry and other institutions empowered to authorize or endorse the operation of SME's, in order to meet legislative procedures on the establishment of SME's.

2. *Creating a specialized body for SME's*: establishing a specialized body, national, aims to provide tracking, coordination and assessment of unit policies and programs to support the creation and development of SME's. Among the main tasks of this body believe that it must be included (Popescu, 2001) :

- management of financial resources allocated to the SME sector in domestic or foreign sources;
- development of legislative initiatives and national programs supporting the SME sector;
- conducting follow-up national support programs for SME's;
- development of business analysis and studies to support the SME sector;
- coordinating all actions concerning SME's, undertaken by ministries and other government institutions;
- creating an information network comprising ministries and other bodies of central and local government;
- ensuring cooperation with international institutions to coordinate assistance to the SME sector by them.

3. *Giving financial aid*

Financial aid to SME's may be in various forms, namely: bank loans with preferential interest, bounty from territory planning, repayable advances to cover part of expenses, aid for innovation, direct state subsidies, raw equity participating loans , providing risk capital and more others facilities.

4. *Giving tax breaks to SME's investing in economic areas which facing restructuring problems or is in the low development areas*

At settlement severe economic and social problems in certain areas where restructuring processes are particularly intense (Nicolescu, 2001), can make a major contribution to the establishment and rapid development and widespread SME's. To this end, we appreciate that SME's that are established in these areas can develop profitable businesses, creating many jobs, helping to quickly solve complex problems.

5. *Provide advice and information* services to support the SME sector is to create a national network of advisory centres, coordinated by specialized body for SME's operating nationally. The network will provide SME's with support services free of charge,

information, management, marketing, finance and banking. SME's should use existing data banks on the MEC sites, that containing results of national research institutes and creating special facilities to implement new products or technologies from publicly funded programs.

6. Ensure priority access of SME's to assets, public services and public procurement.

Create a framework conducive to the establishment and development of SME's cannot be achieved, so long that their access to public services, assets and procurement is limited.

Therefore, we consider that the main measures aimed at widening of access mentioned above, shall include:

- SME support by the public administration bodies to facilitate their access to public services necessary for conducting business, such as transport, water supply, electricity, gas etc.
- priority access of SME's to rent, concession or lease of assets made available to companies with majority state ownership and the RAs, if these assets above facilitates the use of public services;
- possibility for SME's to purchase the assets of the company used state-owned and autonomous owned by SME's under a lease, rental or hire management;
- ensuring equal access of all economic agents (Russu, 1996) for the government procurement and the state orders, the expansion of subcontracting between public companies and private enterprises, creation and development of leasing companies;
- establishment and operationalization of 'incubators' by business.

7. Systematic organization of training programs for entrepreneurs, managers and executive staff of SME's

Entrepreneurship has a specific rule requiring a comprehensive and diverse sphere of knowledge and skills related to preparation (Nicolescu, 2008), implementation and utilization of a business idea using a small number of people. Similarly, the managerial activity lies in SME's extent of the many peculiarities of small business, small number of personnel and material and technical resources, limited financial and informational. As a result, the quality and scope, knowledge, skills, entrepreneurial and managerial skills involved are significantly different. For entrepreneurs and managers of SME's need specific training and development programs. As executive staff, they utilize both traditional professions workers and in certain specific occupations, less known about the particular occupation or traditional technologies. For this category of employees is required specific training which does not make in the education system. It is therefore necessary to organize locally for difficult professions, special training programs.

In setting policies to support SME sector the government should take into account both existing priorities in restructuring the economy and the limited resources available. Sectorial action plan should be oriented so as to encourage SME's to create jobs, which are involved in agro-food production and ensure furniture for large enterprises. But on a regional level should be established assisted areas, which will be created favourable circumstances for implantation of SME's.

CONCLUSIONS

Creating a strong SME sector is undoubtedly a prerequisite for success.

SME's can become key players in the production and distribution structures, based on their ability to adapt quickly to market signals and potential innovation. Inserting them into

economic structure contributing to modernization of its and improving the quality of goods and services.

The competitiveness of enterprise cannot be based solely on the support of public authorities because the resource of competition are inside of enterprise.

The existence of a local small business strong and healthy is the best means of maintaining competition, prevent monopoly control of an industry and thus to ensure the population benefits of competition through more affordable and high quality products.

Most studies of the theoretical and pragmatic - illustrative were focused on the contribution of SME's to the development of synthetic indicators of the economy (gross domestic product, value-added industrial production, employment), the demography and behavior under real markets, particularly those of imperfect competition. Other theoretical approaches and practical investigations focused on the functional, structural and managerial skills of SME's, proposing that the identification of targets that are close to or away from large enterprises and enterprise characteristics that distinguish them from classical to the reference the subject of efforts to build a theory of the firm.

We believe that the practice of strategic management has a clear role in the affirmation of competitiveness, especially if based on an efficient management of information and intelligence on specific economic activities.

Starting from the role of SME's as an important determinant of economic growth and development, we concluded that the implementation of these measures and actions which would significantly broaden the perspectives of SME sector development and thereby increase its competitiveness.

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